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Agency of Canada

Office national
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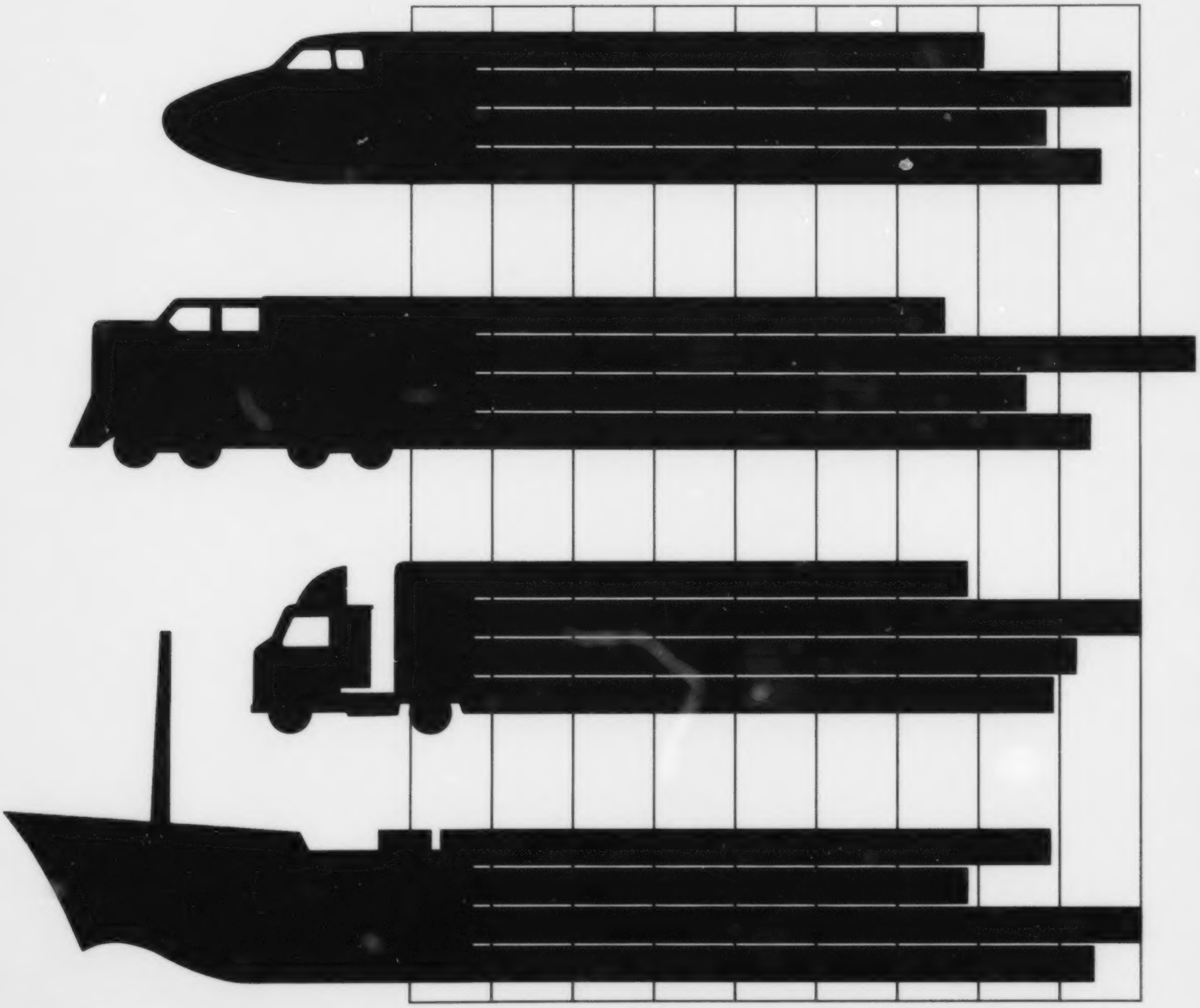
du Canada

Annual Review 1991



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Chairman
National Transportation Agency
of Canada

Président
Office national des transports
du Canada

The Honourable Jean Corbeil, P.C., M.P.
Minister of Transport
Ottawa, Ontario

My dear Minister:

I have the honour to present herewith the fourth annual review of the National Transportation Agency of Canada, made pursuant to section 267 of the *National Transportation Act, 1987*, for the calendar year ended December 31, 1991.

Sincerely,

Erik Nielsen

Erik Nielsen

Canada

92-05576/

TABLE OF CONTENTS

SUMMARY AND CONCLUSIONS i

INTRODUCTION 1

CANADA'S ECONOMY IN 1991 11

AIR SERVICES 19

- Highlights of 1991 19
- Industry Structure 20
- Industry Operations 28
- Concentration and Competition 41
- Carrier Performance 46
- Northern and Remote Areas 48

RAIL SERVICES 55

- Highlights of 1991 55
- Industry Structure and Operations 56
- Traffic 60
- Competition 78
- Service 94
- Carrier Performance 96
- Network Rationalization 97

TRUCKING SERVICES 103

- Highlights of 1991 103
- Regulatory Environment 104
- Industry Structure 108
- Competition 115
- Traffic and Rates 124
- Trucking Operations 131
- Carrier Performance 143

MARINE SERVICES 147

CANADIAN INTERNATIONAL LINER TRADE 147

- Highlights of 1991 147
- Industry Structure 148
- Conference Operations 149
- Effectiveness of *SCEA* 160
- Perspectives on *SCEA* 164
- *SCEA* Related Initiatives 172
- Other Developments 173
- Impact of *SCEA* 174

NORTHERN MARINE RESUPPLY 177

- Highlights of 1991 177
- Mackenzie System 180
- Athabasca System 186
- Impact of Part V 194

GREAT LAKES PACKAGE FREIGHT 197

- Highlights of 1991 197
- Recent Developments 198

INTERMODAL SERVICES 199

SAFETY 213

EMPLOYMENT 219

THE AGENCY'S FOURTH YEAR 229

ACCESSIBLE TRANSPORT SERVICES 241

APPENDICES 245

SUMMARY AND CONCLUSIONS

The economic regulatory framework contained in the federal transportation legislation enacted in 1987 has now been in place for four years. Within that period, a significant downturn in Canadian economic activity has occurred. This recession has had a devastating effect on several sectors of activity, including the industrial heartland in Québec and Ontario and the domestic tourism industry. Exports to the U.S. have also been affected by the slowdown in the economy south of the border. Over the period 1988 to 1991, not only was the Canadian economy exposed to a recession, but it was also forced to rapidly become more competitive, resulting in structural changes within Canadian industries. This changed and more competitive environment translated into difficulties for some sectors.

In Canada, transportation infrastructure and services are well developed. Yet the Canadian transportation system does not possess unique competitive advantages. Given that users of transportation services have been searching for competitive advantages during the 1988 to 1991 period, they have therefore been looking for improved speed, cost and convenience from transportation carriers.

The 1988 to 1991 period was one characterized by the intensification of some recent worldwide trends: increasing globalization of trade and investment, accelerating technological changes, and rapidly evolving business and national strategies. To this list, the Canada-U.S. Free Trade agreement must be added as it represents a significant change in the nature of international competition confronting Canadian-based industries. This is the context in which industries generating transportation demand have had to operate and in which transportation regulatory reforms were implemented.

After four years of monitoring the impact of economic regulatory reform on users and carriers, the Agency's comprehensive frame of analysis, supported by an extensive survey program and supplemented by various other sources of information has enabled it to understand the numerous factors that influence transportation activities, to identify new trends, to measure changes in supply and demand, and to report on transportation developments, issues and concerns.

Transportation Services

Significant changes among the sectors from which transportation derives its demand are occurring; but transportation services are also undergoing a great deal of transformation. Changes to these services have been implemented either to satisfy evolving needs or as a means of increasing cost effectiveness.

Air Services

During the 1980's, the Canadian airline industry evolved into two large carrier families headed by Air Canada and Canadian Airlines International (Canadi*n). The two families created coast-to-coast air transport networks based on hubs located in major communities. Carriers affiliated with the two majors have taken over several regional and/or low demand routes from the parent company. Because these affiliates operate smaller jets and turboprop aircraft, they are in a better position than their parents to match the supply of air services with demand in the markets they serve.

This evolution has been accompanied by a significant expansion of air services. More and more communities have been tied to one or both networks. The expansion of services resulted not only from the affiliation of carriers but also from independent carriers' initiatives. As a result, the number of domestic city-pairs with either direct (non-stop), indirect (same plane) or connecting (same airline) services has dramatically increased.

Despite the amalgamation of Wardair with Canadi*n in 1989 and the demise of several charter carriers, the charter sector of the industry continues to maintain an effective presence in the domestic and international markets. The presence of domestic charter programs, including year-round service in key markets, is providing effective competition for Air Canada and Canadi*n. Their role in providing reduced fares and competition for the majors is one that should not be overlooked.

Rail Services

Under regulatory reform, railways have been able to improve the efficiency of their operations, lower their costs and provide better service to shippers. Innovative rail services introduced by Canadian railways in 1991 include domestic double-stack services, the Sprint train, and RoadRailer train services.

The proportion of rail shippers reporting an improvement in rail services steadily increased between 1988 and 1991, the increase being more significant among larger shippers. Also, shippers with confidential contracts gave a more favourable assessment of changes in railway services than those who had not entered into a contract with a railway.

Shippers reported improved railway services in industry groups such as mining, oil, plastic products, wood, petroleum and coal products while deterioration was noted by shippers in the food products and miscellaneous manufacturing industries.

Of the shippers offering comments on rail rationalization, the vast majority were either supportive of the current process or were in favour of a more liberal process. Only a limited number of small rail users preferred a more restrictive rationalization process.

Trucking Services

With the easing of economic regulation of entry into the extra-provincial trucking industry, trucking firms have been able to expand their operations. However, easier entry, when coupled with lower levels of demand brought on by the recession, has exacerbated the state of excess capacity prevailing within the industry.

As a result, the number of bankruptcies in trucking rose in 1991, reaching a total of 763. Less than nine per cent of these firms were trucking businesses with extra-provincial licensing authorities. Others were mainly small entities with liabilities of less than $200,000.

In 1991, new class 8 vehicle registrations, the type of equipment used by for-hire trucking firms, experienced its lowest level since 1984, an indication that the financial health of the industry was not conducive to equipment investment.

In 1991, 37 per cent of shippers surveyed reported an improvement in trucking services. This proportion of truck users was less than that observed in the previous three years. In terms of specific service factors, shippers' assessments were quite favourable, especially regarding carrier cooperation, equipment condition and supply, transit time, and quality and efficiency of trucking services. Claims handling and shipment tracing by trucking firms were not rated as favourably by shippers. In general, shippers indicated a high degree of satisfaction with trucking services used between 1988 and 1991. Only a very small, yet increasing, proportion of shippers reported a deterioration in trucking services during this period.

Marine Services

With respect to international liner shipping services, the recessionary climate in Canada and the U.S. forced liner operators to further rationalize their services in 1991. Measures introduced translated into cuts in capacity, adjustments in ports of call and increases in space sharing agreements and carrier alliances. The number and frequency of liner services calling at the port of Halifax declined. However, the number of landbridge services via west coast ports on the Far East trade route continued to increase in 1991 and, on the eastern Canada-Europe route, the frequency of services offered by non-conference lines equalled, and in some cases, surpassed that provided by shipping conferences.

Survey results revealed that shippers were generally satisfied with marine resupply services provided in the Mackenzie system. They were particularly satisfied with their principal carrier's on-time performance and frequency of service between 1988 and 1991.

In the Athabasca system, the ratings by shippers of carriers' level of service improved substantially in 1991 in comparison to 1990. This improvement in services occurred during a year of increased competition.

Prices of Transportation Services

Each year, because of competitive pressures, shippers and travellers have had to stretch their budgets, with the result that expenditures on transportation have suffered. Such a situation has forced carriers to respond with innovative pricing packages. Based on the Agency's survey results, it appears that, since 1988, freight rates in all modes of transportation have been increasing at a slower pace than inflation. Rate trends can, to some extent, be explained by the structural and competitive pressures observed in various sectors of the economy. In the case of transborder services, rate changes can be explained partly by the appreciation of the Canadian dollar vis-à-vis the U.S. dollar. As for international services, numerous factors influence rates. Finally, the new regulatory environment has also had an impact on rate setting. Under the new regulatory framework, carriers have the ability to place emphasis in rate setting on size and location factors as well as value of service.

Air Services

During 1991, carriers were faced with a significant decline in traffic as a result of the Gulf War, the recession and increased taxes. Consequently, they introduced seats sales and various promotions to stimulate traffic. This was often in addition to their normal year-round discounts. Over 65 per cent of the southern Canada domestic passenger traffic travelled on discount fares. On northern routes, discount traffic represented 41 per cent of total traffic.

Air cargo shippers responding to the Agency's shippers' survey reported an average increase in air freight rates of just over two per cent.

Rail Services

Since 1988, confidential contracts have been the instruments used by carriers and shippers to mutually determine terms and conditions of rail movements. Given that the proportion of railway traffic moving under confidential contract terms has continued to increase, it is indicative that both railways and shippers are able to reach mutually satisfying agreements. The relatively short duration of contracts filed with the Agency are indicative of short term compromise achieved through contractual negotiations. Both parties are probably hesitant to sign long term deals in a highly competitive and, therefore, uncertain environment. Sixty per cent of shippers reported increased rail rates in 1991 with the increases faced by small shippers generally exceeding those levied on larger ones. Shippers negotiating confidential contracts in 1991 reported lower rate increases than shippers who had not negotiated contracts. Rate related matters dominated shippers' objectives in confidential contract negotiations. Evidence gathered also indicates that, since 1988, shippers have gradually increased volume commitments under contractual terms and conditions.

Trucking Services

For truckload services, rate increases reported by shippers were, on average, marginal. They were less in transborder operations than in the domestic extra-provincial market. Just over 40 per cent of shippers faced rate increases for their trucking services in 1991, compared to almost two-thirds of the shippers in 1990. In the case of less-than-truckload services, the average reported rate increase was slightly greater than the ones in truckload operations.

Marine Services

Rate changes for ocean liner carriage were a function of market conditions prevailing on trade routes, surcharge adjustments and various other operational factors.

In 1991, Mackenzie shippers faced an average rate increase less than the increase in the rate of inflation. In the Athabasca system, licensed carriers filed increases which were, at the very least, as great as the rate of inflation.

Structural Changes and Carriers' Strategies

Deregulation has changed both carriers and shippers behaviour. Carriers have taken significant steps to improve the efficiency of their operations and to set rates/fares that are more responsive to competitive market conditions. Shippers and travellers have begun to more effectively tie transportation services to their activities. Shippers now view service standards as an important part of expanded contract negotiations with carriers.

Carriers have become increasingly responsive to these concerns because of greater intra- and inter-modal competition and have introduced changes in their networks to improve service. Canadian railways have just begun to introduce double-stack technology, a technological innovation that improves efficiency. In addition, they recently obtained union agreements on modifications of some costly work rules. In trucking, carriers are now placing more emphasis on cost controls and productivity enhancements. The air and trucking industries have improved the matching of the supply of transportation services with demand by deploying equipment that is better suited to provide the services required. In the air mode, this has been accomplished through carrier affiliation, while in trucking, it has been achieved partly by improving investment planning processes and by placing conditions on the working relationship between carriers and owner-operators.

With the growing use of just-in-time inventory management, more frequent transportation services are needed. With increased frequency of services, shippers consign smaller volumes of shipments to minimize inventory costs. Sprint trains and RoadRailer services are the railways' response to these new requirements. Nevertheless, trucking continues to be the preferred mode to satisfy such shipper needs.

Within the transportation industry, numerous measures have been implemented to trim costs and/or improve service coverage, efficiency and performance. They include such measures as reductions in employment, mergers, acquisitions, alliances, commercial agreements, and the introduction of new and more cost efficient equipment (e.g. modern, fuel efficient turboprop aircraft, double-stack services, etc).

The phenomenon of strategic (intra- and inter-modal) alliances between carriers, dictated by operational and service considerations and characterized by strategic partnerships, is emerging within the transportation industry. Examples include:

- strategic alliances between airlines;

- the alliance between CP Rail and Norfolk Southern to introduce RoadRailer train services between Detroit and Toronto;
- the Reimer-Midland alliance allowing coast-to-coast trucking service; and
- vessel sharing partnerships such as the one between Sea-Land Services Inc. and Maersk Line in the transpacific trade.

The phenomenon is expected to continue. In some instances, alliances have been dictated by an oversupply of carrying capacity; in others, they were tied to carriers' cost control strategies. Strategic alliances also enable carriers to extend their operations into new markets and/or offer new services.

Some major structural changes were implemented within the transportation sector in 1991. The two major airlines reorganized the management of their affiliate airline holdings in an effort to improve their contribution to corporate revenues and to generate greater economies of scale in their operations. As well, the integration by both major Canadian railways of their operations with those of their U.S. subsidiaries has resulted in the adoption of a North American marketing approach to rail services by the two carriers. CP Rail System and CN North America are to offer seamless transborder services.

Over the past two years, Canadian firms offering inland transportation services have clearly adopted strategies where domestic and transborder operations are considered as one. This is reflected in recent investment decisions, recent acquisitions, structural and operational changes, and signed commercial agreements. These firms are clearly targeting not only the domestic Canadian market but the much larger North American market as areas where future growth will occur. This strategy is in line with the globalization of activities and has been dictated, in part, by cost differential considerations.

Competition

While a great deal of competition centres on price considerations, "time-based" competition has emerged. Service considerations such as on-time performance, reliability and consistency of service are becoming key competitive factors in today's world.

Air Services

The Canadian air transport industry has seen competition intensify between two coast-to-coast networks of affiliated carriers. Competition occurs not only on fares but also on service, where equipment selection and configuration and on-board services are integral components in a carrier's competitive strategy. A smaller number of independent carriers plus some charter carriers are also providing additional competition in a number of domestic markets. In 1991, the number of city-pairs served by two or more carriers was significantly higher than in 1983, the year that preceded the implementation of the new domestic air policy.

Rail Services

Competition in rail services can come from two sources: single-line competition or interline services. The competitive line rate provision was put in place to elevate the importance of interline competition. It has been and continues to be a very contentious provision. Based on evidence gathered through surveys, shippers have used the threat of shipping via an interline route to gain leverage in their negotiations with the single-line carrier. Shippers using interswitching either as a bargaining tool or to move cars, reported a willingness of Canadian railways to compete against each other, a statement also reported by shippers with confidential contracts. Two-thirds of shippers surveyed indicated that Canadian railways were interested in competing against each other in 1991. Shippers using the pro-competitive provisions of the legislation looked favourably on rail intra-modal competition. Survey information also provided evidence of competition in the market place between trucking companies and railway companies.

Trucking Services

The degree of competition prevailing in the trucking industry is illustrated by survey results which show that the most common reaction of shippers to rate increase proposals continues to be the transfer of their traffic to another trucking firm or the negotiation of a reduction of the proposed increase.

As a result of the recession, which has hit most sectors, trucking firms are faced with lower traffic volumes, a situation which has exacerbated the excess capacity problem of the industry and intensified competition. Unbridled competition in the truckload services has impacted on the financial performance of the industry. It is an industry where the current principle is not to prosper but rather to survive.

To measure the degree of competition prevailing in the trucking industry requires more information than simply numbers of applications to provincial licensing authorities. With the delegation of federal responsibilities to provinces, an extra-provincial carrier must apply in each jurisdiction it intends to serve. Therefore, the total number of applications filed with provincial authorities tends to exaggerate the degree of entry into the market, a situation compounded by the lack of uniformity between jurisdictions in the application of the *Motor Vehicle Transport Act* entry test. Other sources of information are needed to measure changes in competition within the trucking industry such as the information gathered by provinces/territories under the Canadian Agreement on Vehicle Registration.

Marine Services

On most trade routes, conference and non-conference liner services compete for traffic. Shippers using both types of liner services reported that non-conference rates tended to be lower. In liner services, the competition in particular trades centres on the actual routing of the traffic with total transit time being the key competitive factor.

With respect to northern marine resupply services, partial deregulation has not increased competition in the Mackenzie system. On the other hand, in the Athabasca system, declining traffic volumes and pressure from winter roads have increased competition between licensed marine carriers.

Issues

The deregulated environment under which carriers operate is still relatively new. Carriers have not only had to adapt to this deregulated environment but also to the shifting sands of the business environment. The capital structure of transportation firms up until 1988 was shaped to some extent by regulation. While this capital structure has begun to undergo transformation to fit the needs of a deregulated environment, it is evident that such a transformation could not be accomplished overnight. The excess capacity permitted under regulation has had to be trimmed. The overall profitability of the transportation industry deteriorated again in 1991. The structural weaknesses of the economy had a devastating effect on demand, particularly for trucking and air services. The resulting excess capacity forced carriers to adopt pricing strategies which intensified the competition within and between transport industries.

The result of the new regulatory environment has been the resurgence of customer satisfaction and carrier competitiveness. In transportation, cost is a critical factor but reliability and consistency of service have gained in importance. Because the transportation industry is still adjusting to its new regulatory environment, further efficiency improvements can be expected in coming years. For some, this is indicative of a need for policy-makers to take, at this point in time, only minor steps consistent with the thrust of deregulation. Yet changes in the overall environment in which transportation evolves have raised concerns and issues which have been brought to the Agency's attention in the context of its review responsibilities. These issues, as in the Agency's 1990 Annual Review, are listed below because of their relevance to the **Comprehensive Review** process currently under way. The **Comprehensive Review** is carried out by a panel of five persons appointed by the Governor-in-Council.

Air Services

Within the air transportation industry, the licensing process for services to, from or within the designated northern region is different than the one adopted for southern Canada services. The issue is whether the process should be continued as is, or modified, and if so whether the modification should make the process comparable to the one in southern Canada or reintroduce a more stringent entry test than the one currently in place.

Because of the financial difficulties experienced by Canada's two major carriers, concerns have been raised as to whether Canada's market place can sustain two major carriers. Some have argued that the two major carriers are needed in the domestic market; others have suggested that only one major carrier should be designated as Canada's international scheduled service carrier.

Tied to the financial situation of major carriers is the issue of foreign ownership within the airline industry. The legislation currently in place allows for up to 25 per cent foreign ownership, with control of the carrier remaining in Canadian hands. Major carriers in Canada, on this particular issue, look at foreign ownership policies prevailing in other countries and also look at foreign equity investment as a potential source of capital allowing them to participate in the globalization of the world airline industry. The deregulation of the airline industry in the United States and Europe, together with mergers and consolidations internationally, has placed competitive pressures on Canadian carriers. They see themselves competing in international markets against huge foreign airlines operating from positions of strength in their own domestic markets.

Rail Services

Canadian railways' recent North American emphasis have led them to raise concerns about differential regulatory and fiscal policies that they claim favours U.S. competitors. On the taxation differential issues, they pointed to "overall differences in taxes on inputs (fuel, property), in income taxation (capital cost allowances, rates), and other taxes (sales)". CN's view on the changes in the tax measures announced in 1991 by the Government of Canada is that "their modest impact does not change the picture".

The taxation applied to railways' right-of-way and the question of rail rationalization are two domestic issues. Railways have expressed the view that the rationalization process has to be streamlined to more rapidly deal with the reality of unprofitable portions of their networks. This view is shared by a large number of shippers. Line conveyances must also go through a process which, in their eyes, is too lengthy. Railways have raised the issue of "subsidized infrastructure costs to the truck mode" as a distortive force in the market place.

CP Rail raised, in the context of "today's modal-competitive mix", a concern about CN's mandate and evolving role as a provider of rail services in a mature continental market for transportation. This particular issue is not different from concerns raised in the 1980's when a new domestic air policy was to be introduced. At that time, Air Canada's competitors had expressed their concerns that the airline could respond to the new challenges of a more liberal regulatory environment with uneconomic practices, relying on the public purse to pay for any deficits.

Shippers are primarily concerned that Canadian railways will tie all their unit revenue declines of recent years to the introduction of competitive access provisions, without giving due consideration to all other factors which led to this evolution of rail revenues. If left with only confidential contracts, given the duopolistic structure of the industry, shippers relying on a single rail line for their traffic fear the monopoly pricing power that the railways would bring to bear with the removal of the competitive access provisions.

Trucking Services

In trucking, the issues revolve around the excess capacity situation prevailing in the industry, and more specifically in the truckload segment of the industry. The excess capacity and the level of competition within the industry have also gradually affected carrier/owner-operator relationships. Modifications to these relationships and lower volumes of traffic have generated reactions from owner-operators, blockades being one example.

Other issues raised by trucking firms relate to differences in equipment standards (weight and dimension of equipment allowed on highways), economic regulations affecting the industry, and the lack of uniformity between jurisdictions in the enforcement of the National Safety Code. Structural imbalances arising from alleged differences in the Canadian and U.S. tax regimes remains a contentious issue.

Marine Services

With respect to ocean liner services, issues are tied to the *Shipping Conferences Exemption Act, 1987*. The need to retain legislation exempting conference practices from the *Competition Act* is the most fundamental issue raised. If retained, then the matter becomes one of the interpretation of the legislation including such matters as the definition of a conference, requirements for exemptions, clarification of the Agency's role and responsibilities, and the status of various agreements in the market place, including those between conference and non-conference lines. The effectiveness of the complaint mechanisms in the *Shipping Conferences Exemption Act, 1987* and the *National Transportation Act, 1987* has also been challenged by shipping lines, shippers and shippers' associations.

In the Athabasca system, the future of barging services is a concern both to carriers serving the system and to users of the services. The ability to sustain competition, given low traffic volume, is an issue for the principal carrier operating in the system.

Other Issues

In a context of multi-modal partnerships and alliances, and vanishing national borders, the traditional modal approach in the carriage of freight is becoming history. Transportation systems which tend to disregard borders are now used for efficient, reliable and economical door-to-door services. These changes are important. Eliminating barriers to the implementation of such systems must be a priority for firms and governments. Regulatory and institutional requirements imposed on the transportation industry have to be examined in terms of their impact on the efficient and seamless multi-modal movement of goods.

Some of the concerns and issues raised emanate from the fact that, in Canada, one level of government does not control the full set of variables in transportation policy, a situation which complicates the process of policy development and implementation.

The National Transportation Policy provides the guiding principles, in the form of broad policy goals and directions, upon which national transportation decisions are to be based. Recent developments within the transportation industry have highlighted the importance of measuring the performance of the transportation system to assess how well it is meeting objectives and to identify emerging issues. This requires ongoing monitoring and evaluation in order to analyze and adapt policies to changing conditions. This, in turn, requires the collection, organization and analysis of data. In order to have the capability to anticipate problems and devise policies to shape the transportation system of the future, data is required to track performance as well as analysis to convert data into information useful for policy. The changing transportation environment has important implications for data. The modal approach presently in place for data collection processes is insufficient to address the issues to be faced by transportation in future years for two reasons. First, the supply-oriented perspective in place for transportation data collection does not reflect today's market oriented environment, which requires a more demand oriented perspective. Secondly, with the shifting emphasis towards intermodalism, data of this nature is missing.

INTRODUCTION

Reviews

Revisions to the major federal transport laws came into force on January 1, 1988. The *National Transportation Act, 1987*, the *Motor Vehicle Transport Act, 1987* and the *Shipping Conferences Exemption Act, 1987*, reduced economic regulation pertaining to air, rail, federally regulated motor vehicles, ocean carriers and northern marine resupply services, and made additions or changes to others. Changes were aimed at, among other things, increasing competition between transport firms.

The *National Transportation Act, 1987* also changed the regulatory body and its duties. The regulatory body - the National Transportation Agency - was tasked, among other things, with carrying out four annual reviews from 1988 to 1991 on the operation of transportation legislation in Canada. Each annual review is submitted to the Minister of Transport by May 31 of the following year, who, within the next fifteen sitting days, tables the review in both the House of Commons and the Senate. Once tabled, the review becomes a public document. The Agency's first three Annual Reviews have been completed and published. This is the Agency's fourth annual review.

The Agency's four annual reviews will be followed by a **Comprehensive Review**. The Governor in Council appointed a panel of five persons in January, 1992 to carry out this review. The panel must submit its report to the Minister by January 31, 1993.

These reviews of transportation legislative reforms make the government aware of new trends and developments in the supply and demand for transportation services in Canada.

This section of the report presents an overview of transportation regulatory reform. Following that is a brief description of the review's mandate and scope.

Regulatory Reform

Canada's new transportation laws stress competition and market forces.

The *National Transportation Act*, 1987, (*NTA, 1987*), the *Motor Vehicle Transport Act*, 1987 (*MVTA, 1987*) and the *Shipping Conferences Exemption Act*, 1987, (*SCEA, 1987*) constitute Canada's new transportation laws. These new laws are intended to promote a more dynamic and competitive environment for transportation services through a greater reliance on competition and market forces. To achieve this objective, the laws establish a simpler regulatory system to reduce economic regulation.

Entry/Exit

Air Services

A carrier must apply to the National Transportation Agency (Agency) for a licence to operate a commercial air service. An applicant no longer has to prove that the proposed service is and will be needed by the "public convenience and necessity". This test has been replaced. Entry requirements differ for domestic air services in southern and northern Canada.

Three requirements must be met in order to obtain a licence to operate an air service anywhere in Canada. First the firm must be Canadian. That means it must be owned by a Canadian citizen or permanent resident; or it must be controlled in fact by Canadians - that is, at least 75% of the voting interests must be owned by them. Second, the applicant must have an operating certificate that shows the firm can safely operate an air service. Third, the applicant must have the liability insurance coverage required by the *Air Transportation Regulations*. If the applicant has passed these "fit, willing and able" entry requirements, he can then get a licence.

With a southern Canada licence, you can operate wherever and whenever you wish, and with the aircraft of your choice, provided the points served are within southern Canada. The licence gives the licensee authority to offer scheduled or charter services or a mix of scheduled and charter services.

For a new or amended licence to provide service to, from or within northern Canada, the old law required the applicant to demonstrate that the service was needed. Now those opposing the application must show that the licensing of a new carrier or the granting of a new licence would lead to a significant decrease or instability in the level of air service in the area. This entry requirement is referred to as the "reverse onus entry test". Licences for services within northern Canada are still subject to abiding terms and conditions, stating points or bases that can be served, group of aircraft to be used and type of service (charter or scheduled) to be operated.

A carrier that has provided domestic air services at least once a week for six months or more, must give advance notice of at least 120 days before reducing the service to less than one flight a week or eliminating it totally.

Rail Services

To construct a line, a "public convenience and necessity" certificate must be obtained. To operate a service on an existing line, a "fitness" certificate must first be obtained, a process that requires the applicant to demonstrate the safeness of the proposed operations and the adequacy of insurance coverage, a step which is then followed by the issuance of Letters Patent.

To sell, lease or convey a line to a new operator, a railway no longer has to apply first for abandonment. Instead, the railway has to give public notice of the agreement to convey prior to obtaining the Agency's approval of the conveyance. If a line that is the subject of an abandonment application or under a Governor in Council protection order has a potential acquirer, the Agency must order the transfer, unless it is against the public interest, at a price agreed to by the railway and the buyer. If the two parties disagree on the price, the Agency will set a price at the net salvage value of the line, if requested to do so.

To abandon any federal railway line, an Agency abandonment order, issued within a time-constrained process, is required. The Governor in Council no longer has the power to protect branch lines from abandonment consideration, but it may vary or rescind Agency abandonment decisions upon application; the Agency may also postpone previously fixed abandonment dates. If a line is ordered retained, the railway can file a claim with the Agency for payment of the actual loss attributable to the operation of an uneconomic line. The Minister can, upon application, provide financial assistance to shippers affected by an abandonment decision to help them adjust their facilities to accept alternative transport services.

Motor Vehicle Services

The delegation of federal responsibility for the regulation of extra-provincial trucking and bus operation to the provinces was continued but all provinces had to adopt a specific process. If provincial responsibilities over intra-provincial trucking and bus operations were retained, the terms and conditions of intra-provincial and extra-provincial regulations must be the same.

Trucking companies are still required to apply to each provincial board to obtain an extra-provincial licence. The applicant now has to prove that it is "fit"; fitness has been defined by the Governor in Council. Once fitness is demonstrated, the provincial board grants the licence unless an objector can prove that the proposed service will be detrimental to the public interest. This entry test, referred to as a "reverse onus test", is to be replaced after five years (or more if ordered by Cabinet) by a "fitness test".

Marine Services

Ocean shipping lines can decide on whether or not to join conferences. Lines joining a conference operate under an agreement that covers mostly tariff matters as well as terms and conditions of services. Such agreements are exempt from the provisions of the *Competition Act* as long as member lines meet the requirements of the *SCEA, 1987*. The agreement may define, among other things, the admission to and expulsion from the conference.

In January 1988, Part V of the *NTA, 1987* replaced the *Transport Act* as the relevant statute regulating the movement of resupply goods by water and the licensing of tug and barge operations on the Mackenzie River, in the western Arctic and on Lake Athabasca. Part V also streamlined the licensing process, permitting the issuance of licences on an indefinite rather than an annual basis, and the licensing of total carrier capacity as opposed to individual pieces of equipment. Other provisions allowed for the transfer of marine resupply licences and increased the emphasis on shippers' support in the Agency's evaluation of a northern marine resupply licence application. Movements of national defence cargo and cargoes in support of the development of non-renewable resources in the north were deregulated under Part V, leaving the Agency to licence only those marine carriers providing resupply services essential to the viability of remote communities. Bulk fuel movements in the western Arctic, which had not been previously regulated, are now deemed community resupply cargo and, therefore, subject to regulation.

The repeal of the *Transport Act* as a result of the enactment of the *NTA, 1987* also eliminated the licensing requirements for carriers providing common carriage package freight service by water using vessels exceeding 500 gross registered tons between ports on the Canadian Great Lakes and the upper St. Lawrence River.

Fares/Rates/Tariffs

Air Services

Domestic air tariffs no longer have to be filed; they only have to be published and a copy retained at the airline's office for at least three years. Confidential contracts between a carrier and a person are permitted but copies must be retained for at least three years at the airline's office.

For southern Canada services, the Agency will review, on complaint, increases in basic passenger fares on monopoly routes. In the north, the Agency will review, on complaint, both the basic fare level or an increase in the said fare. In both areas, the Agency may order the carrier to roll back the increase or level if it is found to be unreasonable. Refunds can also be ordered against the carrier as part of this process.

Rail Services

The *NTA, 1987* defines approaches whereby railways and shippers can make various types of rates but rates charged by railways must be compensatory. Railways still have to publish tariffs, without having to file them with the Agency, so as to make them available to the public. They have to keep a record of the tariff for at least five years after its cancellation. Increases require 30 days advance notice while reductions become effective immediately.

The legislation now allows railways and shippers to negotiate confidential contracts defining rates and transportation conditions agreeable to both parties. It is no longer possible for railways to set rates collectively.

The legislation also introduced various methods whereby shippers can obtain competitive access to other railways. For instance, railways can be ordered to interswitch railcars under regulated (and compensatory) rates or to connect. Interswitching limits have been extended from 6.4 kilometres to 30 kilometres. For shippers located beyond the 30 kilometre interswitching limit, it is possible, in specific circumstances, to request an extension of the interswitching limit. If circumstances do not allow the extension, then shippers can obtain a competitive line rate to move their traffic to the nearest interchange point for transfer to a competing railway.

A railway can agree, in a published contract, to move a commodity at a specified rate (with no volume discounts) in return for the shipper's commitment to provide a given proportion of its traffic. Such a published contract is referred to as an agreed charge. Railways continue to have to agree on a joint rate for traffic moving on two or more carriers' lines. If no such agreement is reached between the carriers, the Agency can set the rate.

Motor Vehicle Services

Extra-provincial trucking rates are no longer regulated. Prior to January 1, 1988, filing requirements and prior approval were imposed by some provinces while others had no rate regulations.

Marine Services

As previously indicated, in order for shipping conferences serving Canada to have certain practices exempted from the provisions of the *Competition Act*, they must file their agreements and information concerning rates charged and conditions of service with the Agency. Non-conference shipping lines do not fall within the scope of the *SCEA, 1987* and are, therefore, not subject to the Act's filing requirements. The *SCEA, 1987* introduced a number of features clarifying and narrowing exemptions enjoyed by conferences and increasing the scope for price competition among member lines of conferences. These include the mandatory right of conference member lines to take independent action (I/A) on rates and conditions of service and the treatment of the use of confidential service contracts by conferences and their member lines as an exempted practice. Moreover, the *SCEA, 1987* now prohibits conferences from demanding a commitment of 100 per cent of a shipper's cargo under a loyalty contract. The *SCEA, 1987* also implicitly exposes previously protected agreements between conference and non-conference lines to the *Competition Act*. Unlike its predecessor, the *SCEA, 1987* expressly forbids conferences from collectively negotiating freight rates with inland carriers or engaging in predatory pricing.

With respect to northern marine resupply services, the reform removed the rate approval requirement. Tariffs must still be filed with the Agency and they also have to be published in the communities served. If considered unjust or unreasonable, the Agency can disallow the tariffs or substitute other ones.

Dispute Resolution

The public interest investigation process, defined in the previous legislation, was revised in the *NTA, 1987*. The "prima facie" case requirement was removed while the factors to be covered by the investigation were expanded. If the investigation concerns a rate matter, and the investigation finds the rates to be excessive, provision now exists for the repayment of overcharges to the shipper. The reform instituted two new dispute resolution processes: a mediation process and a final offer arbitration process. The three existing methods of resolving disputes differ in terms of their modal application, the actions required from each party and the statutory time limits for the rendering of a decision.

The Agency's decisions and orders can be changed or rescinded by the Governor-in-Council on its own motion or following a complaint. It is also possible to appeal Agency decisions and orders to the Federal Court of Appeal.

Acquisitions of Transport Businesses

Under the reform, the Agency must be notified of the purchase by the acquirer of any business principally engaged in a transportation activity under federal responsibility with over $10 million of assets or annual gross sales. If, following the publication of a notice, objections are received, the Agency has 120 days to decide whether or not the acquisition is in the public interest. The Agency has the power to disallow a proposed acquisition if it is found to be against the public interest.

National Transportation Policy

The National Transportation Policy, as defined in the *NTA, 1987*, retained a number of key objectives from the previous policy statement, namely, to have an economic, efficient and adequate transport system; to make the best use of all available transport services at the lowest total cost; to protect the users' interests; and to maintain Canada's economic well-being and growth. Two additional and crucial objectives were added -- to meet the highest practical safety standards and to have viable and effective services.

The National Transportation Policy not only favours competition among modes, as was the case before, but also competition within each mode. Competition and market forces were clearly given a key role. Also new in the policy is the requirement to limit economic regulation to those situations where necessary, primarily where market forces are too weak to ensure effective competition. It recognized the importance of transportation to regional economic development, a role tied also to the commercial viability of transportation services. Fares/rates and conditions of transport cannot constitute an undue obstacle to trade and the movement of commodities, especially through Canadian ports, to the development of primary and secondary industries, and to the mobility of persons with disabilities.

Agency's Annual Reviews

Mandate

The *NTA, 1987* identified what the Agency would cover in its annual reviews:

The Agency's review mandate is both broad and specific.

- changes in prices and level of services offered to shippers and travellers;
- changes in structure, performance and employment levels in the transportation industry;
- the Agency's record in handling complaints, applications and other matters brought to its attention;
- the effect of competitive line rates on railway companies;
- abandonment of railway lines; and
- other matters that the Minister may refer to the Agency's attention.

The Minister exercised this latter power once when he requested that the Agency include, in the 1988 Annual Review, criteria to be used in the identification of regional essential rail networks.

The Review mandate also requires the Agency to examine the operations of the *NTA, 1987* and the provisions of the *Railway Act* it has amended, the *SCEA, 1987*, the *MVTA, 1987*, and any other legislation pertaining to the economic regulation of a mode of transport. Finally, the Agency is requested to consider in its Reviews the National Transportation Policy and the matters to be addressed in the Comprehensive Review.

Scope

The Review covers freight transportation and air passenger services.

This review, like the previous three, covers all transportation modes under federal government jurisdiction and all matters mandated by the Act covered by the transportation regulatory reform legislation. Hence, emphasis is on passenger and freight transportation. It does not cover rail and inter-city bus passenger services. The Royal Commission on National Passenger Transportation is currently studying these matters.

The Agency's Annual Reviews are not policy documents. However, transportation policy makers may use them in their work.

While the main thrust of the Review is on domestic transportation activities, developments in transborder and other international markets, with implications for domestic transport operations, are also addressed.

Since 1988, transportation legislation and its enforcement have placed a greater emphasis on competition to bring about viable and effective transportation services. As a result, the Agency has had to devote special attention in its review process to the measurement of the level and degree of competition prevailing in the market place and its impact on users and carriers.

With the undeniable trend towards the North Americanization and globalization of economic activities, a situation from which Canada cannot escape, a much broader analysis is now required to understand the source, level, and nature of competition influencing carrier conduct and performance. Competitive pressures do not stop at borders, nor do they only come from within the country's territorial boundaries. The number of domestic carriers serving any particular domestic transportation market is, therefore, no longer as good an indicator of the degree and intensity of competition as it once was.

In the transportation sector, competition can occur at different levels: price and/or service competition; intra and/or interprovincial competition; local, regional, national and/or international competition; intra and/or intermodal competition; intermodal and/or multimodal system competition. If Canadian carriers do not face competition at all of these levels, any Canadian or foreign carrier, by the nature and extent of its operations, can exert competitive pressures on all or part of a Canadian carrier's operations. Competition is a complex concept that can only be fully understood when examined at both macro and micro levels.

Furthermore, in a period of slowdown and a downturn in the economy as is currently being experienced in Canada, "new" demand is rare. Under these conditions, a carrier's growth depends as much, if not more, on its ability to divert business from other carriers as it does on its ability to stimulate demand. During these times, the degree of competition intensifies and the fine line differentiating transportation services becomes thinner.

The following sections of the review contain observations on various forms of competition within and between modes in 1991 and provide trends observed between 1988 and 1991. As indicated in the Agency's 1990 Annual Review, the definition of competition and its proper place in Canada's transportation industry are policy questions that are outside the Agency's mandate.

Review Process

The Agency considers all sources providing timely transportation information.

The Agency's 1991 Annual Review is the fourth in the series. Numerous monitoring tools, developed and used for the previous three reviews, have been referred to and adjusted for this year's review. The scope and regional coverage of these monitoring tools provides information on the supply and demand for transportation services to, from and within Canada.

The review process used by the Agency is based on five primary sources of information:

✦ **Institutional Data**

Some analyses reported in this review are based on information produced by and received from government departments and agencies: Statistics Canada, Transport Canada, Consumer and Corporate Affairs, Labour Canada, Canada Labour Relations Board, Investment Canada, Office of the Superintendent of Bankruptcy, Canada Ports Corporation, Finance Canada. Bank of Canada, Transportation Safety Board of Canada, and the Agency itself. Besides these governmental sources of information, the Agency considered information from carriers, the Conference Board of Canada, Canada's major financial institutions, and three private U.S. sources of information: the Official Airline Guides, the Airline Tariff Publishing Company and the Journal of Commerce's PIERS (Port Import/Export Reporting Service).

✦ **The Agency's Survey Program**

To cover all mandated review matters, the Agency conducts numerous surveys.

In addition, the Agency conducted extensive surveys of firms and individuals who use transportation services. This information supplements that obtained from institutions through submissions and also provides the Agency with current views of interested groups. As transportation grows, issues change and so do trends. Consequently, the Agency also revised its survey questionnaires.

The Agency would like to thank all of the individuals who took the time to complete its questionnaires. The result has been high response rates for the surveys. The surveys provide the Agency with information from various sources which helps it understand how transportation affects each region, each mode of transport and each industry. The Agency used standard techniques to analyze survey results. For more detail regarding response rates and regional coverage, please see Appendix A.

The Agency has carried out a shippers' survey of all transportation modes with the aid of the following associations:

Association of International Automobile Manufacturers of Canada
Canadian Chemical Producers Association
Canadian Exporters' Association
Canadian Fertilizer Institute

Canadian Horticultural Council
Canadian Importers' Association
Canadian Industrial Transportation League
Canadian Manufacturers' Association
Canadian National Millers' Association
Canadian Produce Marketing Association
Canadian Pulp and Paper Association
Canadian Shippers' Council
Coal Association of Canada
Council of Forest Industries of British Columbia
Grocery Products Manufacturers of Canada
Mining Association of Canada
Motor Vehicle Manufacturers' Association
Ontario Petroleum Association
Propane Gas Association of Canada Inc.
Quebec Food Processors Association
Quebec Lumber Manufacturers' Association
Quebec Mining Association
Retail Council of Canada
Sultran

For the third consecutive year, the Agency also invited shipping lines operating in Canadian waterborne trade to reply to the shippers' survey as users of surface transportation services.

The Agency conducted three surveys on air matters. First, it surveyed members of the Canadian Professional Sales Association, the Maritime Commercial Travellers' Association and the North West Commercial Travellers' Association. Second, travel agents who belong to the Alliance of Canadian Travel Association were surveyed. Finally, the Agency surveyed representatives of communities and Indian bands located in northern Canada.

The Agency also used results from the Third Quarter Consumer Travel Intentions Survey of the Canadian Tourism Research Institute. The Institute, which is associated with the Conference Board of Canada, included Agency questions in its survey.

The Agency surveyed shipping conferences serving Canada on all major trade routes and international freight forwarders on matters pertaining to the *SCEA, 1987*. For marine resupply services in the Athabasca and Mackenzie systems, the Agency surveyed officials from northern communities, Indian bands, federal, provincial and territorial governments, Arctic co-operatives and northern businesses.

Port terminal operators were also surveyed on 1991 transportation services to and from their terminals.

The Agency also interviewed a sample of 105 motor carriers, plus officials from provincial, regional and national trucking associations, provincial licensing boards, and provincial transportation ministries.

Consultations and interested parties' submissions are also important for obtaining views on regulatory reform.

✦ Consultations

The Agency solicited the views of others as well. Among them were shippers, carriers, provincial and territorial government officials, industry associations and consumer (user) groups. To consult with these groups, Agency employees held meetings, undertook field trips, made visits and gave presentations to large audiences. From April 1 to December 31, 1991, Agency staff responsible for the review attended over 330 of these sessions.

✦ APTC's Contracted Study

The Atlantic Provinces Transportation Commission continued, under contract, to study how the new transportation laws and policy affected Atlantic Canada.

✦ Interested Parties Assessment

The Agency received and considered submissions from all interested in articulating how the new laws had affected them.

Sources for figures and tables presented in the text are reported in Appendix B.

The Agency would like to thank those who helped us conduct our Annual Reviews.

CANADA'S ECONOMY IN 1991

Highlights of 1991

Economic Activity

The Canadian economy showed signs of reduced momentum, with competitive pressures forcing widespread industrial rationalization and employment cutbacks to boost productivity.

Inflation

A one-time jump in the price level associated with the introduction of the Goods and Services Tax (GST) masked the dramatic reduction in inflation. Wage inflation also eased.

Employment

Declines in employment again occurred mainly in the goods-producing sectors, but service-producing industries, including transportation, suffered too.

Canadian Dollar

The Canadian dollar continued to strengthen against the U.S. dollar until November, then fell.

Monetary Conditions

The chartered banks' prime rate continued to decline, reaching its lowest level in over 18 years.

Transportation and the Economy

Transportation plays a distinct role in conditioning the pattern of growth by linking consumption and production. Transportation contributes to the nation's welfare by permitting the development of its economic base and by playing a role in the drive for economic expansion. But the demand for the transport of a commodity is derived from the demand for that commodity in its final market. Demand for passenger services is usually a derived demand; people travel for the purpose of reaching a destination and doing something there.

The performance of the economy affects the aggregate demand for transport services, a demand related to the total output of the economy. This section of the report presents an overview of the performance of the Canadian economy during 1991, which helps in understanding the overall environment in which the transport sector operated.

Growth - Highlights

Recovery of the Canadian economy was delayed by structural adjustments.

After a brief resurgence in the spring, Canadian business activity stalled during the second half of 1991. Little evidence of recovery was noted in retail sales, employment and production. At year end, declines in employment came principally from the manufacturing sector in response to decreases in shipments. Car sales dropped substantially in the last quarter of the year. Housing was one area which showed poor results in the first quarter and then gained upward momentum, but, overall, reached a level of activity insufficient to talk of a recovery. The increase in weighted average hourly earnings, the most comprehensive measure of wage inflation, clearly showed a downward trend. The sagging economy and the trend towards lower inflation led to easing monetary conditions - lower interest rates which, in turn, exercised some modest downward pressure on the Canadian dollar.

A Sectoral Overview

As of the second quarter of 1991, interest rate declines (and special government programs) were unable to get housing starts to pre-recession levels and to offset the sagging performance of the auto sector. The Canadian motor vehicle industry received support in domestic production by offshore firms while the rationalization of the operations of the Big Three producers helped raise Canada's share of North American output in 1991. Canadian auto parts manufacturers continued to face intense foreign competition, as their share of the North American market fell below ten per cent.

Steel shipments tracked the performance of the automobile industry, with profits being squeezed by the strong dollar, price discounting and foreign competition. U.S. penetration of the domestic market was significant.

Widespread losses were reported by forest products firms in 1991, a year of price erosion for softwood lumber, pulp and newsprint. Newsprint shipments to the United States dropped during the past year while prices reached a very low ebb.

Cyclical corrections to base metal prices were less severe than during the 1981-82 recession, but market conditions varied substantially. Aluminum manufacturers were slow to reduce output to face weak demand. Lingering weakness in many commodity markets had a negative impact on domestic resource producers.

International oil prices hovered around $19US per barrel at year end after temporarily reaching $24US during the fall. Alberta natural gas prices fell in 1991 alongside a plunge in spot export prices, a drop in the contract price to California, and a rising proportion of reduced-cost direct sales to consumers in Ontario. Weak prices for natural gas export sales resulted in weak earnings which, in turn, translated into a reduction of energy-related investment in western Canada.

Competitiveness deficiencies imposed rationalization initiatives.

After a decade of strong growth, the service sector showed signs of retrenchment. Retail sales volumes have been on a declining trend for more than three years, with a particularly large setback in 1991. Canadian retailers were plagued by reduced competitiveness, a situation associated with lower taxes and operating costs south of the border. The real estate industry also suffered a significant setback.

A very strong rebound in consumer spending was observed in the second quarter, but was shortlived, due to the downturn in real disposable income and the weakening of consumer confidence. This was reflected in a spring revival in Canadian manufacturing that faded with the softening of new orders. Competitive pressures imposed industry rationalization. As a result, employment in Canada's manufacturing sector has decreased by close to 19 per cent since 1989 and competitive problems remain as Canadian productivity gains lag behind weak U.S. trends. Wage settlements in Canada, however, have started to be in line with those in the U.S.

Weakness of the U.S. economy hampered Canadian exports.

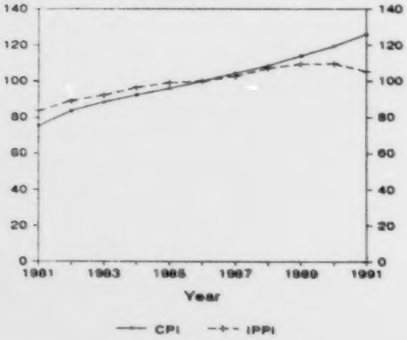
Exports - Imports

Canada's merchandise trade position deteriorated sharply during the second half of 1991, although exports and imports both registered increases. Third quarter increases in exports, mainly of automotive products but also of machinery, equipment and industrial products, were responsible for the increases in exports. But merchandise exports' growth was hampered by the weakness of the U.S. economy. At the same time, imports underwent large increases, resulting in the deterioration in the merchandise trade balance.

The services balance also deteriorated partly due to increased spending by Canadians travelling abroad. A slight increase in exports of services was noted.

The deterioration in Canada's trade balance also reflected a weakening in the merchandise terms of trade, due mainly to dropping export prices, a trend which began in early 1989. The weakness in the price of Canada's exports reflects the marked decline in the international prices of many of the raw commodities which form an important component of Canada's exports. Since a peak in the first quarter of 1989, non-oil export commodity prices have dropped by more than 20 per cent, a situation explained partly by the slowdown in many industrial economies, increased supplies of many minerals from the former Soviet republics, and low prices of many agricultural products resulting from the "subsidy war" between the European Community and the United States.

FIGURE 2.1
Price Indexes
1981 to 1991
(1986 = 100)



CPI = Consumer Price Index
IPPI = Industrial Product Price Index

Inflation

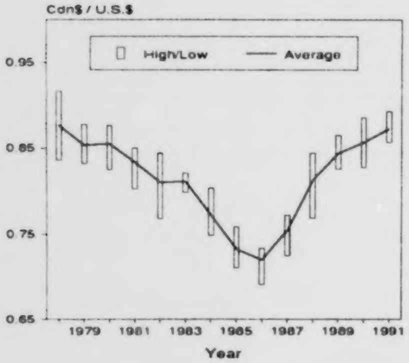
The average annual increase in the Consumer Price Index in 1991 was 5.6 per cent, compared to annual average increases of 4.8, 5.0 and 4.0 per cent in 1990, 1989 and 1988 respectively. The higher annual average in 1991 was essentially due to a sharp rise in January with the introduction of the GST, mitigated, to some extent, by lower rates of inflation at the end of the year. Intense competition and very weak economic conditions have removed private sector price pressures.

> *"For every one cent rise in the dollar (against the U.S. currency) we lose $15 million after tax."*
>
> Bill Stinson, CEO, CP Ltd.

Industrial product prices posted a steep drop in 1991, a situation which started in May. Drops were noted primarily in plastics, gasoline, pulp and paper products, primary metal products, chemical products, and petroleum and coal products.

Toronto's inflation rate was the lowest in the country. In the province of Quebec, the inflation rate was well above the rate observed in most other parts of the country, a situation explained by the decision to broaden the provincial sales tax base.

FIGURE 2.2
Canadian Dollar in
U.S. Funds

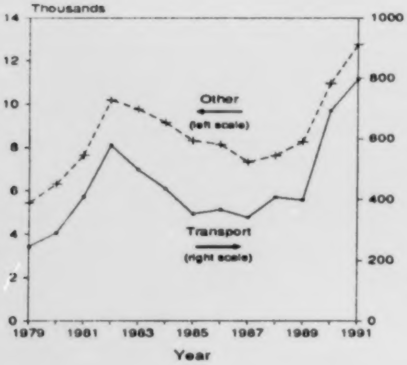


Currency

The Canadian dollar attained a 13-year high in 1991, a situation caused by the large volume of Euro-Canada bond issues, the relatively high yield on Canadian debt instruments and the cautious Canadian monetary stance. Near the end of the year, the Canadian dollar fluctuated while the Bank of Canada intervened in both the currency and money markets to maintain orderly market conditions. The Canadian dollar ended the year at near 86 cents (U.S.).

The appreciation of the Canadian dollar by some 20 per cent since the mid-1980s, combined with wage rate increases in Canada, have made Canada's unit labour costs (expressed in U.S. dollar terms) soar by 50 per cent since 1986, in contrast with a two per cent increase south of the border. Recent studies showed that even if the currency was to drop to 80 cents (U.S.), this would reverse only one-quarter of the competitive ground lost.

FIGURE 2.3
Bankruptcies in Canada
1979 to 1991



Corporate Finances

Debt-to-equity ratios for all non-financial industries have risen substantially since 1988. The increase was particularly sharp in the utilities sector.

Profit margins were more than 30 per cent below their peak at the end of 1988. Business fixed investments were also weak. Expenditures on machinery and equipment fell mainly due to the sales of used aircraft to foreign customers, a transaction treated in the National Accounts as a decline in investment and an increase in exports.

Non-residential construction declined due, in part, to over-capacity of commercial space. Total inventories declined after an increase in the first quarter.

A total of 13,496 business bankruptcies were reported in 1991. The sectors most severely affected were the retail trade industries (3,035 cases), the construction industries (2,012 cases) and the accommodation, food and beverage service industries (1,557 cases). The trend in transport business bankruptcies continued to track the one observed for all other sectors of activity.

Regional Economies

Quota restrictions and the ice-related disruptions of cod catch plagued Newfoundland's fishery sector, a province expected to outperform the rest of Atlantic Canada in coming years. The mining industry was weak, a situation

Atlantic Canada's economy stagnated, . . .

caused by a series of closures and layoffs in 1990 and 1991. Prince Edward Island was hard hit by the PVY-n potato virus and also by another poor tourist season. Retail sales declined sharply and overall employment fell in the province during the past year. Nova Scotia's economy remained in the doldrums, a situation which could not be changed by energy investment and highway construction, as government retrenchment - including a two-year public sector wage freeze - dampened consumer spending. New Brunswick's pulp and paper industry faced a challenging environment. The market for light weight coated papers was particularly weak due to a slump in U.S. magazine advertising. The province's lumber industry was adversely affected by the drop in U.S. housing starts.

. . .central Canada's faltered. . .

The manufacturing, construction and retail sectors were hit hard in central Canada, due to high personal debt loads and uncertain job prospects. The erosion of North American car sales and local spending made the Ontario economy stumble during the second half of the year, with cross-border shopping adding to the problems. Residential construction benefitted from improved affordability and government subsidies in central Canada, but the sales momentum was lost close to year end, partly because of oversupply in the Toronto and Montreal markets. Quebec's newsprint producers had to cut production because of reduced U.S. consumption and labour-intensive industries faced strong competition. Easing of consumer price pressures was noted in Ontario while Quebec's inflation rate was pushed above other provincial rates by a broadened sales tax base. The most significant erosion of provincial finances was noted in Ontario.

. . . while western Canada's key sectors performance varied.

Prairie farm incomes increased because of higher payments under the Gross Revenue Insurance Plan and the Net Income Stabilization Account. Prospects for wheat producers improved as international prices increased due to import needs of the former Soviet republics, along with a tight wheat stock situation in China resulting from a poor harvest. A modest revival in housing starts was noted in Manitoba. Improved wheat revenues and higher government payments were of benefit to Saskatchewan, which also saw the strengthening of offshore potash prices alongside sales gains to China. In Alberta, lower natural gas and heavy oil prices continued to depress industry earnings and imposed a significant constraint on exploration and development. Declines in retail sales were less pronounced in British Columbia, reflecting a relatively better economic performance than other provinces. Consumer price pressures in B.C. eased in 1991 where residential construction and consumer spending were favoured by strong immigration. The forest product industry's profitability was under intense pressure due to the slump in North American construction and timber supply restraints in the U.S. Pacific northwest.

International Economic Environment

Canada has a very open economy, with trade to other countries being an important component of its economic activities. A brief overview of the performance of the economies of Canada's most important trading partners follows.

Contrary to the 1981-82 recession, the international economic situation is characterized by unharmonized economic cycles. While the United States and Canada were trying to recover from a recession, European countries and Japan were attempting to prevent the current slowdowns from turning into a recession. Generally speaking, the pace of economic activity and inflation slowed down in most industrial nations during 1991. Intense competition in a sluggish environment pushed average inflation down.

The United States adopted an aggressive monetary policy to revive economic activity. Mounting job losses, sluggish income growth and high taxes, however, all impacted negatively on consumer confidence, which in turn weakened consumer demand. With sagging retail sales, falling housing starts and declining industrial production, economic recovery in the United States was curtailed. On the positive side, inflation has moderated.

Reduced economic momentum occurred in Europe and Japan, while economic activity faltered in the U.S.

Japan's record expansion - a seven year investment boom - faded in 1991 as a result of profit compression and weak equity markets. Sluggish sales reduced manufacturing output, a situation which has not been seen for nearly half a decade. Japan's exports have softened due to reduced demand from other trading countries.

German growth slowed after three solid years. Wage demands escalated and consumer prices at the end of 1991 showed signs of escalating inflation. Germany was the only industrialized country which did not report declines in interest rates.

France showed signs of recovery, boosted by exports to Germany and increased industrial production.

The United Kingdom struggled to pull out of its recession. Output in 1991 was below the 1990 peak level and the unemployment rate rose. Within the European Monetary System, Sterling showed signs of weaknesses.

The Performance of the Economy since Regulatory Reform

The transportation legislation, since its enactment in 1988, has not yet been exposed to all phases of business fluctuations.

When the new transportation legislation came into effect in 1988, the Canadian economy was reaching the peak of an expansion cycle and has since entered into a recession.

Canada's new transportation laws have not been in effect during a full business cycle.

The economic contraction in Canada during 1990 and 1991 appears to be less pronounced than a decade ago and yet it has been observed to be one of the worst economic performances of the Canadian economy in more than four decades. With automation introduced in the 1980s, the current contraction, in comparison to the one in the early 80s, did not result in accumulated inventories and subsequent massive cuts in production. However, the duration of the setback is expected to be much longer. The most significant factor constraining growth in Canada is the erosion of consumers' confidence, triggered to a significant degree by an increase in unemployment. This rise in unemployment is attributable in good part to the process of restructuring currently under way, particularly in manufacturing and retailing, rather than just the recession. High household and government debt burden levels, low overall profitability levels of Canadian firms, a robust dollar situation and an unfavourable unit cost evolution are all factors preventing a rapid economic recovery.

Many of the cutbacks reported in the past two years were made to meet the competitive challenge of a globalizing world economy. The resulting erosion of the demand for transport services imposed a need for balance sheet improvement on Canadian transportation firms. In certain cases, this occurred when pre-recession investment decisions, such as equipment purchases, were becoming available for their introduction in the operations, restraining the adjustment momentum and/or exacerbating signs of excess capacity.

The economic downturn has forced transportation firms to adjust operations in order to improve competitiveness and reduce debt burdens, setting the stage for a stronger and more durable expansion in the rest of the decade. Competitiveness, for Canada's open economy, is essential to maintaining the standard of living of Canadians.

AIR SERVICES

Highlights of 1991

Airlines Continued to Restructure

Airline traffic plummeted due to the Gulf war, the lingering recession and the introduction of the Goods and Services Tax; in the tough operating environment, airlines continued with restructuring measures introduced in 1990 and cut unprofitable routes, reduced excess capacity, and laid off employees. In November, Air Canada announced a growth strategy designed to help it compete more effectively in international markets and to bolster service to key domestic communities.

Independents

Intair and City Express both succumbed to financial difficulties. The domestic charter sector continued to offer year-round competitive services on several domestic city-pairs.

Fares

The majors attempted to stimulate traffic through seat sales and promotions; two out of three passengers travelled on discount fares including over 71 per cent during the third quarter.

Carriers Incur Losses

Air Canada and PWA Corporation posted record losses totalling $379.7 million; their affiliates reported a combined loss of $30.6 million.

Government Initiatives

The Government implemented the GST law, commenced negotiations with the U.S. on an "open skies" agreement, and introduced a series of fiscal measures designed to assist the transportation industry.

Industry Structure

Carriers and Licences

Carriers

During 1991, the Agency issued licences to 69 domestic carriers. Thirty of these licensees were authorized to operate to, from, or within northern Canada while 34 were authorized to provide services in southern Canada only. Of the remaining five carriers, two were authorized to operate international scheduled air services, and three were authorized to operate international charters to or from Canada. By the end of 1991, there were 861 licensed domestic carriers. This is up from the 777 domestic carriers licensed at the end of 1990.

The number of domestic and foreign air carriers serving Canada increased in 1991.

FIGURE 3.1
Canadian Carriers and
Canadian Held Licences

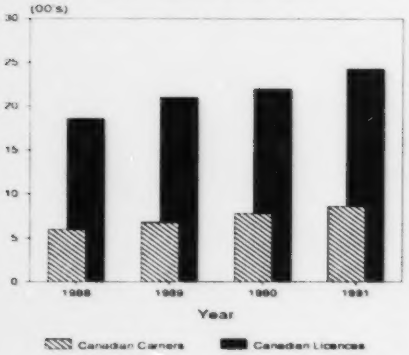


TABLE 3.1
Air Transport Licences: December 31, 1990 and 1991

	1990[1]	1991
Domestic Licences		
Southern Canada	823	868
Northern Canada		
Scheduled	32	41
Non-Scheduled	850	968
Total Northern Canada	882	1,009
Total Domestic Licences	**1,705**	**1,877**
International Licences		
Held by Canadian Carriers		
Scheduled	89	122
Non-Scheduled	404	431
Total Canadian-Held	493	553
Held by Foreign Carriers		
Scheduled	137	156
Non-Scheduled	880	931
Total Foreign-Held	1,017	1,087
Total International Licences	**1,510**	**1,640**
Total	**3,215**	**3,517**

Note: [1] 1990 numbers revised.

In 1991, there were 33 requests to cancel licence authorities, five proposed mergers or acquisitions (the most notable being the purchase of Intair's turboprop operations by Canadian Regional Airlines and the acquisition of Soundair Corporation's Air Toronto assets by Ontario Express) and two bankruptcy filings by Air Dorval and Worldways Canada.

At the end of 1991, 869 foreign air carriers provided service to and from Canada. This is 114 more than at the end of 1990. The majority (754) were U.S.-based air carriers.

Licences

The number of licences held by domestic and foreign carriers increased from 1990.

At the end of 1991, Canadian carriers held 1,877 domestic licences, up from 1,705 a year ago. Of these, 868 were for authority to provide air service in southern Canada while 1,009 authorized the holders to provide air service to, from, or within the designated northern area.

The number of international licences held by both Canadian and foreign carriers increased from 1,510 in 1990 to 1,640 in 1991. Table 3.1 shows the distribution of air transport licences issued by the Agency.

Majors and Affiliates

Majors

*Air Canada and Canadi*n continued to restructure their operations and reassess their strategic plans.*

Nineteen ninety-one was one of the most difficult years in the airline industry's history as the Gulf War and the recession caused air travel to decline. To combat the downturn in demand and position itself for the future, Air Canada adopted a two-fold strategy of cost cutting and careful expansion. To increase its productivity and reduce costs, the airline suspended its unprofitable service to Bombay and Singapore, reduced its labour force by 12 per cent, sold six L1011 aircraft to Delta Airlines and retired all of its L1011-100's, removed ten B-727's from service, reduced its order for the A320 by five aircraft, closed reservations offices in four Canadian locations and New York, and sold its downtown Montréal headquarters to Hydro Québec. In March 1992, the airline announced that it was selling its enRoute card operations to Citibank Canada for approximately $300 million. In conjunction with Transport Canada, the renovation of Terminal 2 at Toronto's Pearson International Airport was completed and work commenced on renovations to passenger service installations at Montréal International Airport (Dorval).

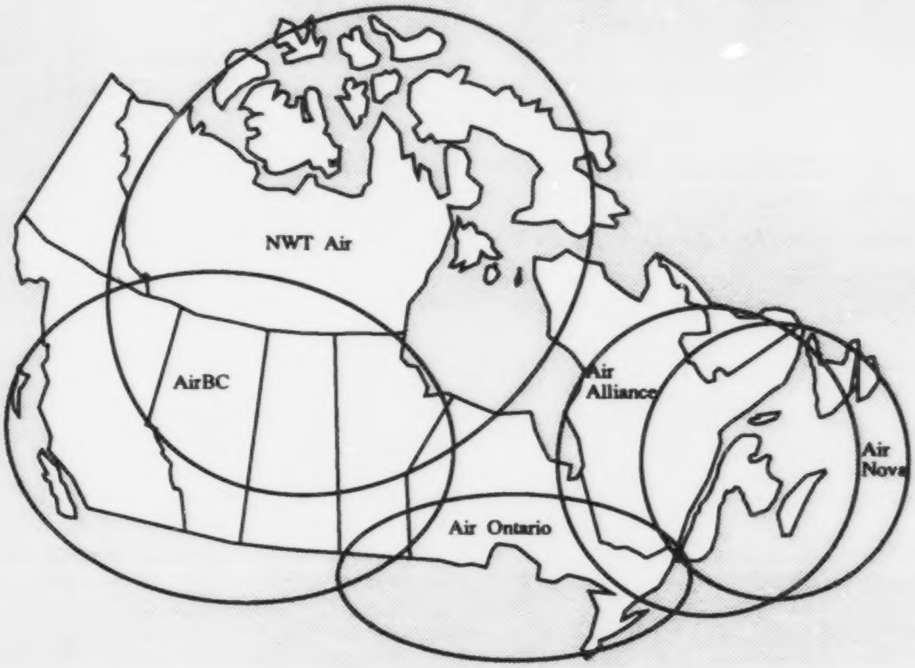
Despite the hard times, in November, Air Canada announced a growth strategy for 1992, designed to improve both its domestic and international operations. The strategy includes placing three parked B-747-400's (delivered during 1991) into service and converting two combination passenger/cargo B-747-200's to an all passenger configuration. These measures will add 4.5 per cent more seats to its fleet and have a trickle-down effect that will see larger aircraft replacing smaller ones throughout Air Canada's network.

Anticipating a more open Canada-U.S. air services agreement, Air Canada and USAir agreed in principle to form a strategic alliance which would cover operational and marketing links as well as possible cross-ownership. The airline also signed code-sharing agreements with Austrian Airlines, Finnair (since discontinued), Air Liberté, Air Czechoslovak, Malev Hungarian Airlines, LOT Polish Airlines, and Sabena.

Canadian Airlines International Ltd. (hereinafter referred to as either Canadi*n or CAI) also continued its restructuring. It announced the lay-off of an additional 1,575 employees and reduced capacity by selling surplus aircraft. The airline enhanced its competitive position in Toronto by moving from Terminal 1 to Terminal 3, completed improvements to its facilities at Montréal's Dorval airport, and strengthened its presence in key Asian markets by introducing transpacific B-747-400 service.

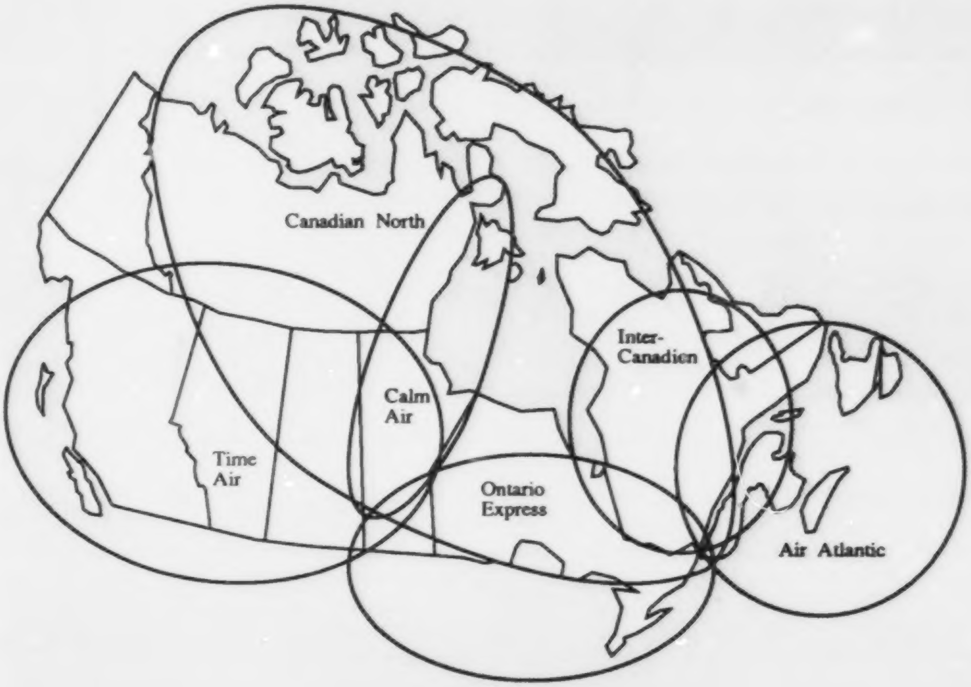
Canadi*n continued to rationalize its international routes by discontinuing service to Peru, Australia and New Zealand but maintained a presence in the south Pacific

FIGURE 3.2: Air Canada Connectors



Carrier	Network	Fleet
Air Canada	48 destinations in Canada, the United States, Europe, and the Caribbean.	115 jets
Air Nova (100% owned by Air Canada).	16 destinations in the Atlantic provinces; Montreal, Ottawa, New York, and Boston.	5 jets 9 non-jets
Air Alliance (75% owned by Air Canada).	14 destinations in Quebec; Ottawa and Boston.	15 non-jets
Air Ontario (75% owned by Air Canada).	10 destinations in Ontario; Montreal, Winnipeg, Cleveland, Hartford, and New York.	21 non-jets
AirBC (85% owned by **Air Canada**) (owns 50% of **Pacific Coastal Airlines**).	26 destinations in British Columbia, Alberta, and Saskatchewan; Winnipeg, Seattle, and Portland.	5 jets 33 non-jets
NWT Air (100% owned by Air Canada; code sharing agreement with five local carriers).	5 destinations in the Northwest Territories; Edmonton and Winnipeg.	2 jets 1 non-jet

FIGURE 3.3: Canadi*n Partners



Carrier	Network	Fleet
Canadian Airlines International (100% owned by **PWA Corporation**).	42 destinations in Canada, the United States, Europe, Asia, and South America.	76 jets
Canadian North (a division of **Canadian Airlines International**).	23 destinations in the Northwest Territories, Quebec, Manitoba, and Alberta.	8 jets
Air Atlantic (45% owned by **PWA Corporation**).	19 destinations in the Atlantic provinces, Quebec, and Ontario; Boston.	3 jets 13 non-jets
Inter-Canadien (70% owned by **Canadian Regional Airlines**[1]).	26 destinations in Quebec.	12 non-jets
Ontario Express (100% owned by **Canadian Regional Airlines**).	25 destinations in Ontario, Quebec, and Manitoba; six destinations in the U.S.	26 non-jets
Calm Air (45% owned by **Canadian Regional Airlines**).	22 destinations in northern Manitoba and the Northwest Territories; Winnipeg.	8 non-jets
Time Air (100% owned by **Canadian Regional Airlines**.	29 destinations in British Columbia and the Prairie provinces; two destinations in the U.S.	7 jets 29 non-jets

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[1] Canadian Regional Airlines Ltd. is a wholly owned subsidiary of PWA Corporation.

via code-sharing agreements with Air New Zealand and Qantas. Code-sharing agreements were also signed with Mandarin Airlines and Varig, increasing Canadi*n's presence in the Taiwanese and Brazilian markets. In March 1992, PWA Corporation, the parent company of Canadi*n, announced that it was undertaking detailed discussions with American Airlines regarding a comprehensive strategic alliance. The parties are discussing equity swaps, joint marketing programs, and reciprocal services.

During 1991, an amendment to the *Pacific Western Airlines Act* (Alberta) was passed by the Alberta Legislature which increased the maximum number of PWA Corporation shares a single investor can hold from four to ten per cent. This change was designed to make the corporation more attractive to pension fund managers and other large investors. In March, PWA Corporation raised $101 million by issuing 12 million common shares.

Affiliates

One of the most prominent developments of Canada's airline industry in the 1980's has been its transformation, through a series of mergers, acquisitions, and alliances, from one comprised of two large national airlines, five smaller regionals, and a variety of specialized local carriers to one with two carrier families headed by Air Canada and Canadi*n. A notable trend has been the inclination of the major carriers to take a controlling interest in their affiliates. Both networks incorporate hub-and-spoke scheduling where the affiliate carriers organize their flights from outlying communities to link up with their parent carrier's operations between larger hubs.

The regional affiliates continued to grow as they restructured their networks and increased service.

In 1991, both major carriers' affiliate airlines underwent several important changes. In January, Air Canada acquired the remaining 51 per cent in Air Nova and, in April, established Air Canada Regional Airline Holdings to manage its regional carrier interests. Air Canada's affiliates continued to restructure their networks by leaving low-density markets to local carriers, that were better equipped to serve them, in order to concentrate on longer, higher-density regional routes. AirBC expanded east of Alberta into both Saskatchewan and Manitoba, while Air Ontario expanded its services to create a mini-hub at the Toronto Island Airport linking it with London, Windsor, Montréal, Ottawa and New York (Newark). In addition, both Air Nova and Air Alliance expanded their network coverage within their regions.

Air Nova also increased its Halifax-New York service by signing joint fare agreements with five major U.S. carriers. NWT Air further extended the affiliate concept at the local level by adding Air Tindi to its network but, by year-end, had lost Delta Air Charter as a connector.

On January 1, 1991, PWA Corporation consolidated the management of its regional airlines into a new company called Canadian Regional Airlines Ltd. (Canadian Regional). During the year, Canadian Regional acquired total control of Time Air and Ontario Express. The 45 per cent stake in Air Atlantic is still held directly by PWA Corporation. In March 1991, Canadian Regional announced that it was taking over the turboprop operations of Intair. The $20 million deal restored Inter-Canadien as Canadi*n's feeder carrier in Québec, effective June 1, 1991. On November 1, following a lengthy court battle, Ontario Express, acquired Air Toronto, a former Air Canada Connector. On December 31, 1991, Canadian Frontier, the northern Ontario subsidiary of Ontario Express, ceased operating under its own name. All services are now marketed under the Canadian Partner name.

Airline Evolution in Canada

Key events in the evolution of the Air Canada and Canadi*n affiliate networks since 1986 are as follows:

Air Canada

1987: Air Canada acquires 85 per cent of AirBC and merges Austin Airways and Air Ontario to establish 75 per cent owned Air Ontario.

1988: Air Canada fills gaps in its connector network by taking a 75 per cent stake in the newly created Air Alliance and by acquiring 90 per cent of NWT Air, a carrier in northern Canada. It also negotiates a commercial and code-sharing agreement with Air Toronto.

1989: Air Canada buys the remaining ten per cent of NWT Air.

1991: Air Canada purchases the remaining 51 per cent of Air Nova, and creates Air Canada Regional Airline Holdings to manage its regional airline investments.

Canadi*n

1987: PWA Corporation purchases 49 per cent of Ontario Express, 45 per cent stakes in Air Atlantic and Calm Air, 35 per cent of Inter-Canadien (a Québec carrier formed in September through an alliance of Nordair Metro, Québec Aviation, and Québecair) and increases its holding in Time Air to 46 per cent.

1989: PWA Corporation buys Wardair and later amalgamates it with Canadi*n. Inter-Canadien leaves the PWA family to form the independent carrier Intair. Frontier Air, a regional carrier in northern Ontario, is purchased by Ontario Express.

1990: Frontier Air, doing business as Canadian Frontier, starts operating as a Canadian Partner.

1991: PWA Corporation creates Canadian Regional Airlines Ltd. to consolidate the management of its affiliates and purchases the remaining shares of Time Air and Ontario Express. Canadian Regional purchases 70 per cent of Intair's turboprop operations and reestablishes Inter-Canadien as a Québec affiliate. The Ontario Court of Appeal approves the sale of Air Toronto to Ontario Express.

Independents

Scheduled Carriers

City Express and Intair ceased operations.

Difficult economic conditions and strong competitive forces hurt the independent airlines. After creditors rejected a proposed debt restructuring plan, City Express ceased operations on February 25, 1991. Despite having restructured its route network and financing in 1990, Intair continued to experience difficulties. During the first quarter it stopped flying between Montréal, Ottawa and Toronto to concentrate on its Québec network. After the airline announced the sale of its turboprop operations to Canadian Regional Airlines on March 15, 1991, it continued to operate as a charter carrier until a lack of capital forced it to cease operations on November 3, 1991.

First Air and Air Inuit, both owned by Makivik Corporation, maintained their extensive presence in northern markets. Both carriers began code-sharing to capitalize on their complementary networks and better compete with Canadian North and NWT Air. During 1991, First Air added Kuujjuaq, Resolute, Nanisivik, Holman Island and Coppermine to its extensive northern network. However, due to a downturn in traffic, First Air withdrew from several routes including Yellowknife-Iqaluit and Ottawa-Newark. In early 1992, it withdrew service from Ottawa-Goose Bay, Ottawa-Boston, and Ottawa-Mirabel. During the peak summer months, it operated domestic charters between Toronto and several domestic points for numerous tour operators and cargo charters for Emery Air Freight. It also operated charter flights to several sunspot destinations.

Smaller independent carriers continued to expand within their respective markets by adding new points and aircraft types to their operations. Saskatoon-based Norcanair, which had previously operated between 1974 and 1987, re-started both scheduled and charter flights throughout Saskatchewan using turboprop aircraft.

Charter Carriers

Charter carriers were active in the domestic market.

Although the demand for air travel was depressed in 1991, Canadian charter airlines were very active in the domestic market throughout the year. The charter industry is centred on Air Transat, Canada 3000, and Nationair, with supplemental charter capacity provided by First Air. Worldways conducted sub-charter flights for American TransAir during the first quarter, but was petitioned into bankruptcy in October.

Extensive domestic charter programs, offered in conjunction with major tour operators in 1991, resulted in increased service and fare competition: during the busy May to September period, Canada 3000, Air Transat, Nationair and First Air served several domestic points including Toronto, Montréal, Vancouver, Calgary, Edmonton, Victoria, Regina, Saskatoon, Winnipeg, Thunder Bay, London, Windsor, Ottawa, Gander, Halifax and St. John's. Furthermore, during the fall, Canada 3000, in cooperation with Conquest Tours, announced that it would operate year-round daily flights between Toronto and Vancouver and three to four flights per week between Toronto and Calgary/Edmonton.

Nationair was designated by the Minister of Transport as a scheduled carrier between Montréal and Margarita, Venezuela while Air Transat was designated as a scheduled carrier between Montréal and Fort Lauderdale.

Capacity Shares

*Both Air Canada and Canadi*n trimmed overall capacity.*

The recession, aggravated by the Gulf War and the introduction of the GST, led both major airlines to trim capacity in 1991 (Table 3.2). Air Canada cut capacity on domestic, transborder, and international markets. As a result, its share of scheduled departing seats declined marginally to about 28.5 per cent from 28.8 per cent at the end of 1990.

Canadi*n also reduced its domestic capacity but increased its international capacity. This was consistent with the retirement of the Airbus A310 on domestic routes and the introduction of the B-747-400 on transpacific routes. Like Air Canada, Canadi*n's share of total scheduled departing seats is down marginally from 27.3 per cent at the end of 1990 to 27.1 per cent during the fourth quarter of 1991.

The affiliates gained a larger share of a declining market.

Air Canada's regional affiliates (Air Alliance, AirBC, Air Nova, Air Ontario, and NWT Air) managed to increase their share of total capacity to 19 per cent (up from 17 per cent a year ago) despite the loss of Air Toronto as a connector airline and minimal growth in the number of departing seats. This reflects the continuing transfer of routes from the parent airline to its affiliates and the overall reduction in capacity implemented by both majors.

Canadi*n's affiliates Calm Air, Inter-Canadien, Ontario Express, and Time Air, operating under the umbrella of Canadian Regional Airlines and Air Atlantic, which is 45 per cent owned by PWA Corporation, experienced a large increase in capacity share (up from 13 per cent in 1990 to 17 per cent in 1991). This was due to the acquisition of Intair's turboprop routes by Canadian Regional Airlines and the subsequent reintroduction of Inter-Canadien as a partner airline as well as the take-over of Air Toronto's routes by Ontario Express.

FIGURE 3.4
Domestic Scheduled Departing Seats per Week: Fourth Qtr.

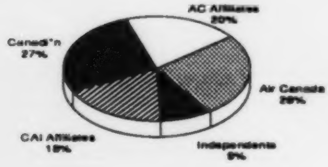


TABLE 3.2
Total Scheduled Departing Seats per Week (000's Seats): Fourth Quarter

	Domestic		International		Total	
Carrier	**1991**	**(%) Change from 1990**	**1991**	**(%) Change from 1990**	**1991**	**(%) Change from 1990**
Air Canada	232.0	(8.6)	49.9	(10.7)	281.9	(9.0)
Connectors	178.0	1.2	7.6	(17.8)	185.7	0.2
Sub-Total	**410.0**	**(4.6)**	**57.5**	**(11.7)**	**467.6**	**(5.5)**
Canadi*n	243.5	(10.3)	24.1	8.7	267.6	(8.9)
Partners[1]	163.2	17.4	4.7	17.4	167.8	17.4
Sub-Total	**406.7**	**(0.9)**	**28.8**	**10.0**	**435.4**	**(0.3)**
Independents[2]	81.4	(42.4)	4.6	62.3	86.1	(40.4)
TOTAL	**898.1**	**(8.5)**	**90.9**	**(3.4)**	**989.1**	**(8.1)**

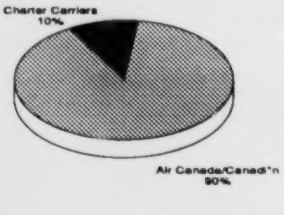
Notes: ( ) Indicates negative figures.

[1] Inter-Canadien included in 1991.

[2] Comprises 30 independent airlines including Intair and City Express in 1990.

With the failure of Intair and the transfer of its turboprop routes, independent carriers' share of total capacity declined dramatically from 13.4 per cent at the end of 1990 to under nine per cent at the end of 1991.

FIGURE 3.5
Charter Capacity on Select City-Pairs*: Third Qtr.



* Select city-pairs include Toronto/Ottawa to Vancouver/Calgary/Halifax; Toronto to Edmonton/St. John's/Saskatoon/Regina/Winnipeg/Charlottetown/Thunder Bay; and Montréal to Vancouver.

Charter capacity in several domestic markets was significant during the summer months. In 14 city-pairs where the charter carriers competed directly with the scheduled carriers, they accounted for approximately ten per cent of total available scheduled and charter seats; this is up from about seven per cent on only six city-pairs in 1990. These 14 city-pairs represent 25 per cent of the total scheduled passenger market. Moreover, at the height of their respective charter programs, the charter carriers accounted for all of the non-stop capacity in six other city-pairs (Windsor/London to Calgary/Vancouver and Toronto to Victoria/Gander).

Four Year Summary

Since the end of 1987, Air Canada and Canadi*n's combined share of scheduled capacity has fallen from about 71 per cent to 56 per cent. Domestically, both major carriers reduced capacity as they transferred regional routes to their affiliates and pared surplus seats. Internationally, Air Canada increased capacity until it elected to abandon service to several unprofitable destinations in 1990. Canadi*n's international capacity is up since 1987 but it fluctuated due to the acquisition of Wardair in 1989 and the ensuing decision to reduce, then increase, available seats.

The affiliates of both major carriers enjoyed large increases in their capacity share during the past four years which, combined, has increased from 16 per cent in 1987 to 36 per cent in 1991. This growth is attributable to the paring of seats and the transfer of routes from their parent airlines, the birth of additional affiliates, and the increased use of larger turboprops and jets. Over the past four years, the independent airlines' capacity share fluctuated largely with the fortunes of Intair and City Express. Overall, capacity is down from 11 per cent in 1987 to nine per cent in 1991.

Despite the departure of several charter carriers during this period and the amalgamation of Wardair with Canadi*n, the resulting voids in the Canadian airline industry have been quickly filled by other carriers.

Industry Operations

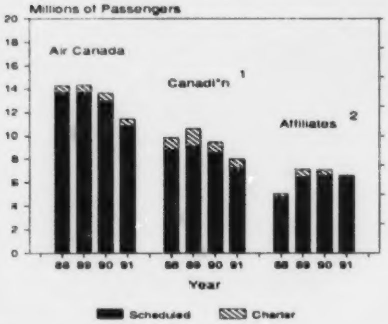
Traffic

Passenger

The number of passengers carried by the majors fell sharply in 1991.

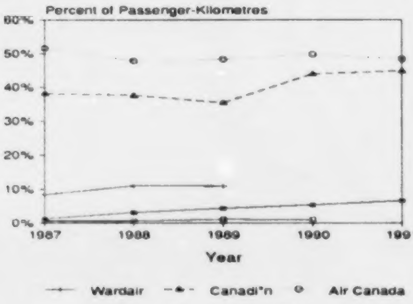
The major carriers registered an overall decrease of 15.5 per cent in the number of passengers carried on scheduled flights in 1991. This follows a decrease of 5.6 per cent in 1990. Both Air Canada and Canadi*n reported decreases in their domestic and international passenger traffic. The severity of this decrease is attributable to the effects of the Gulf War, the intensity of the economic recession, and the introduction of the GST. In addition, the airlines discontinued service on many unprofitable routes. Surveys of Canada's Professional Sales Association and the Maritime and North West Commercial Travellers' Association members indicated that over the last four years, a marginal increase in the number of trips taken by air for personal reasons has been more than off-set by a 17 per cent decrease in business trips made by air; 1991 was the third consecutive year in which respondents indicated that their business travel was down from the previous year.

FIGURE 3.6
Number of Passengers Carried



NOTES:
1 Includes Wardair in 1989.
2 See Table 3.3.

FIGURE 3.7
Market Share
Scheduled Revenue Passenger-Kilometres



NOTE: Independents include First Air, Quebecair (1987), Intair (1989-90), and City Express (1988-90).

TABLE 3.3
Scheduled Passenger Traffic

	Passengers		Passenger-Kilometres	
	1991 (000's)	Per Cent Change from 1990	1991 (000,000's)	Per Cent Change from 1990
Air Canada	10,879	(16)	20,300	(17)
Canadi*n	7,258	(15)	18,783	(13)
Affiliates[1]	6,447	(2.1)	2,754	4.5

Notes: ( ) Indicates negative figures.
[1] Includes Air Alliance, Air Atlantic, AirBC, Air Nova, Air Ontario, Calm Air, Canadian Partner, Inter-Canadien, NWT Air, and Time Air.

Consistent with the decrease in the number of passengers carried, Air Canada and Canadi*n reported a combined decrease of 17 per cent in the number of scheduled passenger-kilometres flown (the number of passengers carried multiplied by the number of kilometres flown). A relatively larger decrease in Air Canada's international passenger-kilometres than in domestic passenger-kilometres reflects its withdrawal of service from a number of international points in 1990 and 1991.

Despite the inclusion of Inter-Canadien as an affiliate in 1991, the Air Canada and Canadi*n affiliates carried fewer passengers in 1991 than in 1990. However, they enjoyed an increase of over four per cent in revenue-passenger kilometres, suggesting generally longer distances flown.

Post Recession Recovery

In a recession, people curtail their travel and/or switch from air to other less expensive modes of transport. If the recovery from this recession is similar to the recovery from the last one, traffic will bounce back, but slowly.

An examination of enplaned and deplaned passengers for the top nine Canadian international airports reveals that it took until 1988 for domestic air travel, which accounts for about two-thirds of total passenger traffic, to reach the 1981 level. Recovery of transborder traffic to the U.S., which accounts for about one-quarter of total passenger traffic, took until 1986 while other international traffic, which accounts for about ten per cent of total traffic, took until 1984 to recover.

TABLE 3.4
Scheduled Passengers on Top Twenty-Five Domestic City-Pairs: January to June 1990 and 1991

City-Pair	1991 Passengers	Per Cent Increase (Decrease) from 1990
Montréal-Toronto	589,680	(19.6)
Ottawa-Toronto	356,000	(13.7)
Toronto-Vancouver	269,250	(18.1)
Calgary-Vancouver	177,400	(12.6)
Calgary-Toronto	164,110	(21.6)
Toronto-Winnipeg	139,870	(18.6)
Calgary-Edmonton	137,730	(14.2)
Edmonton-Vancouver	135,000	(15.3)
Halifax-Toronto	129,200	(14.8)
Edmonton-Toronto	105,550	(24.0)
Thunder Bay-Toronto	86,820	(12.8)
Montréal-Vancouver	76,140	(6.2)
Vancouver-Winnipeg	66,420	(17.1)
Ottawa-Vancouver	63,010	(12.5)
Vancouver-Victoria	58,000	(18.0)
Halifax-Montréal	56,870	(19.5)
Halifax-Ottawa	56,600	(7.5)
Calgary-Winnipeg	55,010	(10.5)
Prince George-Vancouver	52,600	(24.3)
St. John's-Toronto	52,110	(11.0)
Halifax-St. John's	47,490	(11.7)
Québec-Toronto	46,420	(25.1)
Ottawa-Winnipeg	45,100	(9.0)
Calgary-Montréal	44,650	(11.6)
Calgary-Ottawa	40,310	(6.1)
TOTAL (Top 25)	**3,051,340**	**(16.5)**
TOTAL (All City-Pairs)	**5,397,430**	**(16.9)**

Passenger traffic in Canada's top 25 markets decreased 16.5 per cent from 1990.

During the first six months of 1991, 5.4 million passengers travelled by air in Canada, a decline of 16.9 per cent from the corresponding period in 1990. Furthermore, all of the top 25 domestic city-pairs registered decreases in passenger traffic, resulting in a combined decrease of 16.5 per cent. Traffic declines ranged from six per cent for Calgary-Ottawa to 25 per cent for Québec City-Toronto. Traffic for the largest city-pair, Montréal-Toronto, experienced a decrease of 19.6 per cent.

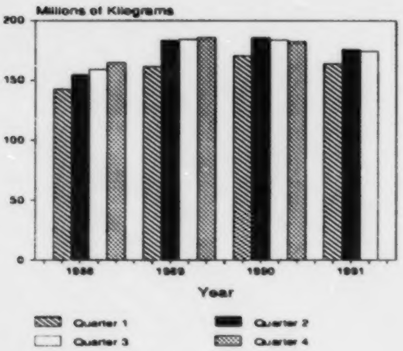
Toronto's importance as an origin or destination for scheduled air traffic is confirmed by its presence in seven of the top ten city-pairs and in ten of the top 25.

Cargo

Cargo volume for both major airlines and airports was down from 1990 levels.

For the first three quarters of 1991, the volume of cargo handled on major scheduled services at Canadian airports totalled 513.2 million kilograms, down five per cent from 1990. This was the first January to September decrease since the Agency's reviews started in 1988. It underscores the recession's effect on air cargo. Domestic air cargo, which accounted for 54.5 per cent of the total volume moved through Canadian airports, decreased ten per cent while international and transborder air cargo grew by approximately three per cent.

FIGURE 3.8
Cargo Handled on Scheduled Services at Canadian Airports



Only four of the top 25 airports in Canada (in terms of cargo traffic) registered growth: Vancouver, Moncton, Nanisivik, and Prince Rupert. Vancouver's 2.4 per cent growth was largely attributable to economic activity between British Columbia and the Pacific Rim.

Approximately 77 per cent of the air cargo carried on scheduled services moved through Toronto, Montréal, and Vancouver. Pearson International Airport accounted for 43 per cent of the air cargo handled on major scheduled services at Canadian airports during the first three quarters of 1991, Vancouver International Airport handled 18 per cent, while Montréal's two airports, Dorval and Mirabel, accounted for 16 per cent.

Air Canada continued to dominate the Canadian air cargo sector in 1991 but saw both its tonnage and goods tonne-kilometres (the number of tonnes multiplied by the number of kilometres flown) decline. The larger decrease in its goods tonne-kilometres compared to tonnage reflects a loss of cargo traffic on its longer-haul markets and the withdrawal of service from Singapore and Bombay. Canadi*n also experienced a decline in both its tonnage carried and in its goods tonne-kilometres. The fact that its tonnage decreased at a greater rate than its goods tonne-kilometres suggests that it carried a larger percentage of its cargo on its long-haul routes in 1991 than in 1990.

FIGURE 3.9
Scheduled Cargo Traffic

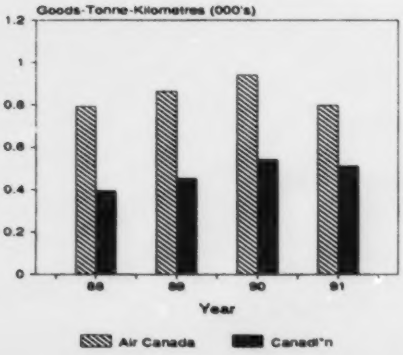


TABLE 3.5
Scheduled Cargo Traffic

	Tonnes		Goods Tonne-Kilometres	
	1991	% Change from 1990	1991	% Change from 1990
Air Canada	245,593	(11)	798,318	(15)
Canadi*n	140,007	(10)	511,263	(6)

Note: ( ) Indicates negative figures.

During the four year period between 1988 and 1991, air cargo service in Canada has mirrored the development of the majors' and affiliates' networks. Despite the presence of all-cargo airlines, most air freight service in the domestic market is provided on passenger or combi (combination passenger/cargo) aircraft by carriers operating at the national and regional levels.

TABLE 3.6
Changes in Weekly Scheduled Air Service: Third Quarter 1990 and 1991

	Total Flights (Direct and Indirect)		Seat Capacity	
	Number	Per Cent Increase (Decrease) from 1990	Number	Per Cent Increase (Decrease) from 1990
Montréal-Toronto	667	(25.8)	76,562	(15.4)
Ottawa-Toronto	483	(22.0)	44,416	(17.5)
Toronto-Vancouver	272	6.3	56,906	3.1
Calgary-Vancouver	555	10.6	54,132	(9.9)
Calgary-Toronto	173	(8.5)	31,853	(10.7)
Toronto-Winnipeg	184	(13.6)	23,024	(15.5)
Calgary-Edmonton	375	(18.0)	35,186	(15.6)
Edmonton-Vancouver	219	(18.0)	22,909	(17.4)
Halifax-Toronto	220	3.3	30,356	11.3
Edmonton-Toronto	116	0.9	18,934	(9.4)
Thunder Bay-Toronto	103	(33.1)	10,679	(31.5)
Montréal-Vancouver	73	(8.8)	11,334	(5.8)
Vancouver-Winnipeg	135	(26.6)	15,003	(23.6)
Ottawa-Vancouver	56	(28.2)	7,856	(21.0)
Vancouver-Victoria	404	(24.2)	14,554	(31.5)
Halifax-Montréal	188	(1.6)	16,881	2.3
Halifax-Ottawa	109	(0.9)	11,763	5.2
Calgary-Winnipeg	150	(36.4)	13,161	17.5
Pr. George-Vancouver	114	(14.0)	10,808	10.7
St. John's-Toronto	80	(7.0)	10,239	(8.3)
Halifax-St. John's	222	2.8	19,161	10.1
Québec-Toronto	38	(45.7)	3,800	(41.7)
Ottawa-Winnipeg	49	(47.3)	6,912	(40.2)
Calgary-Montréal	67	3.1	9,845	0.1
Calgary-Ottawa	54	20.0	6,995	14.9
TOTAL	**5,106**	**(12.6)**	**563,269**	**(9.0)**

Service

One hundred and fifty-four sample city-pairs[1] in both southern and northern Canada were analysed to determine changes in the level of service being provided by air carriers over the 1983-1991 period. Total weekly scheduled departing direct (non-stop) flights, indirect (same-plane, one or more stops) flights, jet flights, non-jet flights, and available seats scheduled during the third quarter of each year were used as service indicators. The significance of comparisons with 1983 and 1987 is that, respectively, these years precede the initial relaxation of economic regulation in 1984 through a new domestic air policy and the implementation of the official legislative reforms of the *NTA, 1987* on January 1, 1988.

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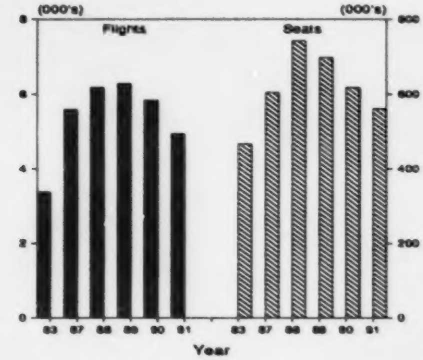
[1] A list of these routes is provided in Appendix C.1.

Top Twenty-five Markets

Air services were trimmed to meet demand in major markets.

FIGURE 3.10
Weekly Scheduled Flights and Seats:
Top Twenty-Five Markets: Third Qtr.



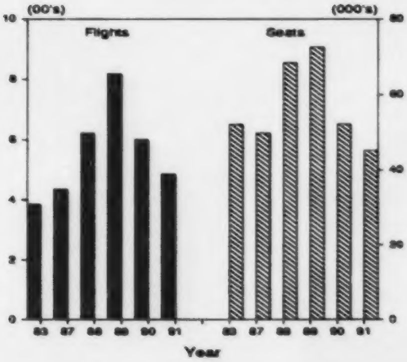
Service levels in Canada's top 25 city-pairs decreased during 1991 as shown by a 12.6 per cent decline in total flights (both direct and indirect) and by a nine per cent decline in available seat capacity (Table 3.6). Decreases in the number of flights occurred in 18 city-pairs while seat capacity decreased in 15 city-pairs. This follows decreases of six per cent for flights and 11 per cent for seats in 1990. As a result, total flights are nine per cent lower than in 1987, while total available seats are down seven per cent. However, both service indicators are still up 51 per cent and 20 per cent respectively when compared to 1983 levels.

In terms of the type of aircraft used, jet flights are down ten per cent and non-jet flights 21 per cent from 1990 levels. The decrease in both flights and seat capacity on the Montréal/Toronto (Island and Pearson)/ Ottawa sectors reflect the demise of both City Express and Intair. The increases in flights and available seats reported on the Toronto-Vancouver route reflects the deployment of additional capacity by Canadi*n and Air Canada in response to competition from the charter carriers. Other exceptions include increases in the number of flights and seats in the Toronto (Buttonville)-Ottawa/Montréal, Halifax-Montréal, Calgary-Winnipeg/Vancouver and Halifax-St. John's routes as the regional affiliates increased their presence in these markets by adding turboprop and/or jet capacity. The Prince George-Vancouver market also reported increases in both the number of jet and non-jet flights as competition between Canadi*n, AirBC and Central Mountain Air intensified. The small increases in both the number of flights and seats offered in the Calgary-Ottawa/Montréal markets was due to increased jet services by Canadi*n.

In addition to the above-noted scheduled services, charter carriers were active in 11 of the top 25 city-pairs during the summer months of 1991 and in five city-pairs during the fall/winter period.

Inter-Regional Services

FIGURE 3.11
Weekly Scheduled Flights and Seats:
Inter-Regional: Third Qtr.



The decline in air service on routes other than the top 25 inter-regional routes was even more pronounced than on the top 25 city-pairs. A review of 18 inter-regional[1] city-pairs indicated that seat capacity and total flights decreased by 14 per cent and 19 per cent respectively from 1990 levels. Exceptions included Regina-Toronto, Ottawa/Montréal-Moncton/Fredericton/Charlottetown, Québec-Halifax and Dryden-Winnipeg where most increases in service were attributable to new jet and turbo-prop services offered by the regional affiliates. The 567 per cent increase in non-jet activity between 1987 and 1991 shows the increased role that the affiliates have assumed in providing inter-regional air services in the domestic market.

Atlantic Provinces

A sample of 13 city-pairs[1] indicated that total flights increased by two per cent while seats decreased by five per cent during the third quarter of 1991 compared to the same period in 1990. This represents a shift to providing service with smaller aircraft and is reflected in the 15 per cent increase in non-jet flights in the region, especially in markets to and from Halifax and St. John's where both Air Nova and Air Atlantic increased frequencies to maintain market share. Total flights offered in 1991 for these city-pairs were still, however, 23 per cent higher than in 1987 and 185 per cent higher than in 1983. Similarly, the total number of seats offered in these markets was one per cent higher than in 1987 and 41 per cent higher than in 1983.

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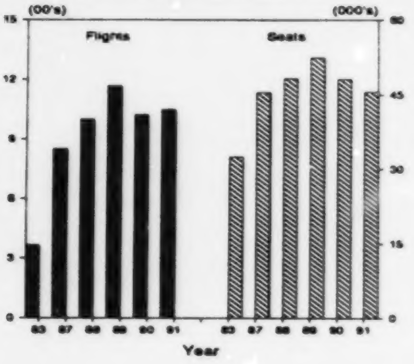
[1] A list of these routes is provided in Appendix C.1.

During the year, Air Nova introduced BAe 146 jet service between Charlottetown and Halifax, which complements its Dash 8 service. It also added St-Léonard and New York (Newark) to its network, serving the former with Dash 8's and the latter with BAe 146's. Air Atlantic added new jet services between Ottawa, Montréal and Fredericton and suspended its twice-daily service between Wabush, Québec City, and Montréal. Other service improvements by Air Atlantic included increased jet service between Deer Lake and Gander, and jet service between Halifax, Montréal and Ottawa.

The Atlantic Provinces Transportation Commission's report on air services noted that despite the economic climate, several new services were introduced in the Atlantic provinces and the ones offered in 1990 held their own. It also observed that a high level of performance, reliability, and in-flight service were maintained.

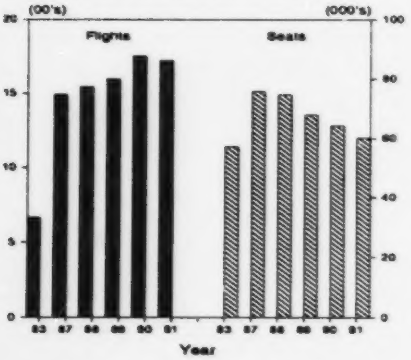
FIGURE 3.12
Weekly Scheduled Flights and Seats;
Atlantic Provinces: Third Qtr.



Ontario and Québec

A sample of 16 Ontario and Québec city-pairs[1] showed that while the total number of flights was down two per cent from 1990, they are still up 13 per cent from 1987 and 158 per cent from 1983. The number of jet flights decreased 88 per cent from 1990, while the number of non-jet flights increased by three per cent. This decrease, combined with a six per cent decrease in total seats, reflects the loss of Intair's jet service in the region and its replacement with turbo-prop services offered by Air Alliance and Inter-Canadien. Large increases in flights and seats took place on the Îles de la Madeleine-Québec, Montréal-Rouyn/Noranda, and Montréal-Saguenay/Bagotville routes. Canadian Partner (Ontario Express) withdrew from the Hamilton-Ottawa/Montréal routes but continued to increase services between Toronto (Buttonville) and Ottawa/Montréal. Pem Air and Air Laurentian, two small independent carriers, added service between Hamilton, Ottawa and Montréal. Skycraft Air Transport of Oshawa introduced a new one-stop service between Ottawa and Windsor competing directly with Canadian Partner and Air Ontario. Air Ontario continued to build a hub at Toronto Island by adding non-stop services to New York (Newark), London and Windsor; these are in addition to its existing services to Montréal and Ottawa.

FIGURE 3.13
Weekly Scheduled Flights and Seats;
Ontario and Québec: Third Qtr.

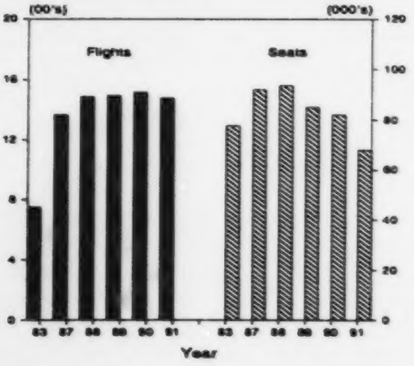


Western Provinces

A sample of 22 city-pairs[1] in the prairie provinces and British Columbia showed that total available flights registered a slight decrease of two per cent from 1990. The importance of the regional and local carriers continued to be illustrated by the 11 per cent increase in non-jet flights and a 17 per cent decrease in seats. Total flights are still up by eight per cent from 1987, and 97 per cent from 1983.

Several city-pairs experienced increases in the number of flights and available seats as AirBC moved to strengthen its network in order to compete with Time Air. These city-pairs included Kamloops-Calgary/Edmonton, Edmonton-Saskatoon/Regina, and Edmonton (Municipal)-Winnipeg. AirBC dropped marginal points in its network including Port Hardy, Peace River, Sandspit, Fort St. John's and Smithers. Similarly, Time Air withdrew from several regional markets (Uranium City, Quesnel, Lloydminster and Williams Lake) that were better suited for local airline operations.

FIGURE 3.14
Weekly Scheduled Flights and Seats;
Western Provinces: Third Qtr.



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[1] A list of these routes is provided in Appendix C.1.

Smaller independents continued to add points to their respective networks to either fill the voids left by the regional affiliates or to offer competitive services. These included Norcanair, Athabasca Airways, Central Mountain Air, Helijet Airways, Prairie Flying Service, Trans Provincial Airlines and Waglisa Air.

Cargo

Air Canada, with its five DC-8-73 freighters, continues to be the largest operator of all-cargo aircraft in Canada. Furthermore, with the introduction of its B-747-400 combis in the spring of 1992 and the continued integration of the A320 into its fleet, the airline is well positioned to serve the needs of air cargo shippers in both domestic and international markets. Air Canada's cargo revenue decreased 14 per cent from 1990 and now represents ten per cent of its total revenues. This compares to 1988 when its cargo operations accounted for 15 per cent of its revenues.

Canadi*n enhanced its cargo service during 1991 with the addition of B-747-400's and A320's. The B-747-400's, which were deployed on the airline's north Pacific routes, added cargo capacity between Canada and growing Asian markets. The A320's, which are operating on several of the carrier's key Canadian routes, offer domestic shippers extra capacity and improved service because the A320 can carry the same cargo containers as Canadi*n's B-767-300's, B747-400's and DC-10's. Canadi*n's air cargo revenues were up eight per cent from 1990. Its air cargo operations have, during the 1988 to 1991 period, consistently accounted for about eight per cent of its total revenues.

Other participants in the domestic air cargo industry include United Parcel Service and Federal Express, which offer overnight service to 80 per cent of the Canadian population. These two U.S. based carriers charter Canadian registered aircraft or use regional carriers as part of their uplift capacity.

Air cargo service levels remained stable in 1991 and rate increases were less than half of the inflation rate.

The Agency's Shipper Survey shows that almost half of the respondents used air cargo services for an average of 13 per cent of their traffic in 1991; this is down slightly from 1990. More shippers reported using all-cargo services than belly cargo on passenger services while a few used charter cargo services. While most respondents indicated that they contacted air carriers directly to make their domestic air cargo arrangements, just over a quarter indicated that they utilized freight forwarders while another 28 per cent indicated that they used freight forwarders and made their own arrangements. As was the case in 1990, a small number of shippers reported using confidential contracts to move approximately a quarter of their air cargo. The large majority of respondents indicated that the volume of cargo moved under confidential contracts in 1991 was unchanged from 1990 levels.

Most respondents indicated that air cargo service remained unchanged from 1990. Of those respondents who felt there was a change in air cargo service, the majority felt that services had improved rather than deteriorated. An exception was "direct services" where 13 per cent of the respondents felt there was a deterioration compared to ten per cent who thought there was an improvement.

The respondents reported an average increase in cargo rates of just over two per cent. As was the case last year, this reported increase was the highest of all modes. However, it was significantly less than the 5.6 per cent increase in the inflation rate for 1991.

Tariffs

Fare Changes in 1991

*Air Canada and Canadi*n offered numerous seat sales and promotions in an attempt to stimulate traffic.*

The average increase in third quarter 1991 economy fares for the 122 sample routes used in this section and the Northern and Remote Areas section, was 11.9 per cent over the comparable period in 1990. However, this is not representative of the situation in 1991 since it reflects fare increases of about 11 per cent that were implemented by the carriers in August and October of 1990.

In an effort to stimulate sagging demand brought on by the Gulf war, the recession, and increased taxation, the airlines' strategy for 1991 centred on well-publicized seat sales, promotions, and new value-added services. During the second quarter of 1991, over 65 per cent of all passengers travelling in southern Canada travelled on a discount air fare. This is up from just over 63 per cent in 1990. However, the average 1991 discount (i.e. the amount by which seat sale fares are discounted from the regular economy fare) was down 3.6 per cent from 1990. This suggests that despite the well-publicized seat sales, some with discounts of up to 75 per cent off the regular economy fare for the second quarter, the airlines were successful in managing the availability of discount seats throughout their systems.

Discount Fares[1]

Airline yield management systems, periodic seat sales, and charter operators provide a regular supply of reduced fare options.

The supply of discount fares is largely controlled by sophisticated "yield management systems". These systems, used by all major airlines, are linked to computer reservation systems and are designed to improve airline revenues. Ticket sales and other market conditions are continuously monitored and adjustments are made to the availability of various discounts in order to fill each flight with the most passengers. The system may thereby boost traffic by lowering fares (increasing the size and availability of discounts), or sacrifice traffic growth by boosting fares (tightening up the availability of discounts), whichever strategy produces more revenue. The operations of yield management systems provide a regular supply of reduced fare options, which is supplemented by seasonal seat sales. Competitive fares offered by smaller independent and charter carriers added further to the selection of low-price fares available to Canadian travellers.

Air Fares

Business fares have largely replaced the first-class fare in domestic markets, offering passengers additional convenience and on-board amenities. Business fares are usually available on inter-city and commuter routes and are priced about 12 to 15 per cent above the regular economy fare.

Economy or basic fares are the standard unrestricted fares offered on each route. These fares are commonly used by the "must-go" traveller who is unable or unwilling to meet the requirements attached to various discount fares.

Discount fares are priced below the economy fare (reductions range up to 75 per cent) and are available on almost all routes; however, these fares are restricted both in number and by other "fences" such as requirements for advance purchase, minimum or maximum stay, non-refundability, or off-peak travel. The size of the discount generally varies directly with the extent of restriction.

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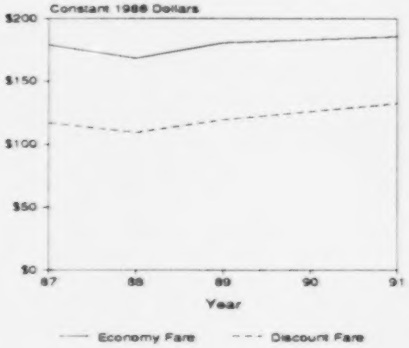
[1] For the purpose of this analysis, **discount fares** include those fares that are available to an individual traveller during the sample period, and generally involve requirements for advance purchase, minimum/maximum stay, or off-peak travel. All other discounts designated for inclusive tours, travel agents, groups, children, senior citizens, students, etc., have been excluded.

Top Twenty-five Routes

On the twenty-five most heavily travelled domestic routes[1], over 36 per cent of the lowest fares were discounted by 60 to 65 per cent off the regular economy fare. However, another 36 per cent of the lowest fares fell into a range where the discount rate was even lower; these fares were discounted by 72 to 75 per cent off the economy fare. With the exception of two routes, Calgary-Vancouver/Montréal, the routes in the latter group were the ones in which the charter carriers were active. This illustrates how the major carriers used fare discounting as a way to stimulate demand and to counter competition in key markets.

FIGURE 3.15
Top 25 City-Pairs, Average Fares: 2nd Qtr.



Excluding the Toronto-Montréal and Toronto-Ottawa routes (where a large number of discount fares were available in 1990 because of the competition between Air Canada, Canadian and the independent carriers, Intair and City Express) the average number of discount fares per route decreased slightly from 14.5 per route in 1990 to 14.2 in 1991. Sixty-five per cent of the passengers on these routes travelled on discount air fares in 1991. However, on those popular long-haul routes where domestic charter programs were available, between 65 and 75 per cent of the passengers travelled on discount fares. Return fares as low as $339 (Toronto-Vancouver) and $178 (Halifax-Toronto) were available. The proportion of discount travellers on short-haul routes such as Toronto-Ottawa and Edmonton-Calgary is normally lower due to the higher percentage of business travellers.

Since 1987, the average second-quarter economy fare for the top 25 city-pairs increased by 24 per cent while the average discount fare paid by travellers on these routes increased by over 35 per cent. When expressed in constant dollars, the average economy fare increased less than four per cent while the average discount fare increased by over 13 per cent. The gap between the average economy fare and the average discount fare has been narrowing since 1988. This illustrates how the carriers have been using their yield management systems to control fares.

Affiliate Carrier Routes

On 27 routes[1] served by the affiliated regional carriers, almost 60 per cent of the lowest fares were discounted by 60 to 65 per cent off the regular economy fare. The discount rate for a further 33 per cent of the lowest fares ranged between 45 and 60 per cent of the economy fare. This indicates that the affiliates followed their parent's lead in using fare discounts as a tool to stimulate demand. The deep discounts of over 70 per cent found on several of the popular long-haul routes served by the majors and charter carriers in 1991 were not found on these routes. Nevertheless, discount air fares were available on routes where there was only one carrier, namely Stephenville-Halifax (four fares), Watson Lake-Fort St. John (six fares), and Hamilton-Montréal (five fares). The average number of discount fares per route decreased slightly to about ten per route from just over 12 in 1991. Business class fares were available on one third of the routes.

Other Mainline, Regional, and Local Routes

Another 35 routes[1], comprising a variety of mainline, regional, and local services were examined. Fifty-one per cent of the lowest fares were discounted by 60 to 65 per cent off the regular economy fare. A further 35 per cent were discounted by 55 per cent. For only two city-pairs, Regina-Toronto and Sudbury-Toronto, was the lowest fare discounted by more than 65 per cent. In the case of Regina-Toronto, domestic charter services were available in addition to the scheduled services provided by Air Canada and Canadian. On Sudbury-Toronto, services were provided by Air Ontario and Ontario Express. The average number of discounts per route decreased slightly from 13 in 1990 to 12 in 1991. However, routes such as Toronto-Sudbury/Timmins/Windsor, Québec-Halifax and Montréal-Val-d'Or had 17 or 18 discounts while more remote, less dense routes like Deer Lake-Wabush, Stephenville-Gander, and Vancouver-Dawson Creek, which were served by only one carrier, had five or more discount fares available.

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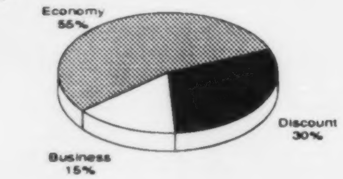
[1] A list of these routes is provided in Appendix C.1.

Agency's Air Transport Surveys

Canada's Professional Sales Association, the North West Commercial Travellers' Association and the Maritime Commercial Travellers' Association represent some 50,000 sales professionals across the country, many of whom travel regularly by air. In 1991, the Agency surveyed a sample of over 3,500 of these associations' members, individuals who averaged more than ten business trips and almost two pleasure trips during the year.

Respondents frequently referred to the increasing costs of travel and expressed displeasure over the wide gap between full and discount fares, believing that the full fare traveller was subsidizing the discount passenger. According to the survey, 15 per cent of fares used in Canada were business class, 55 per cent were basic economy, and 30 per cent were discount.

FIGURE 3.16
Commercial Travellers' Fare Usage : 1991



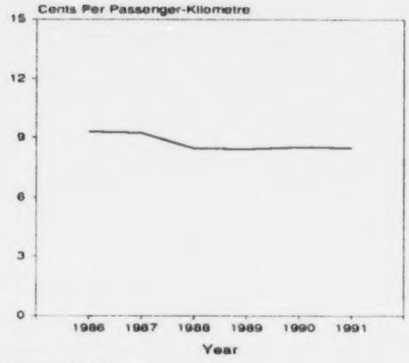
Business travellers are markedly less price-sensitive than leisure travellers, ranking price in fifth place behind arrival/departure times, safety record, availability of direct flights, and on-time performance. However, when travelling for pleasure, they ranked price in first place. In a rating of domestic air service for 1991, 34 per cent of commercial travellers felt that service had deteriorated, 12 per cent felt there had been improvement, and 53 per cent felt that there was no change.

When polled regarding the effectiveness of deregulation on the Canadian airline industry, 22 per cent of the respondents felt that deregulation has been beneficial, 32 per cent felt that it has not, while 46 per cent held no opinion. Of those who felt deregulation has been successful, the prime benefit was held to be a decrease in fares. Conversely, detractors of deregulation felt that fares had increased and that overall service had deteriorated.

The Agency also polled members of the Alliance of Canadian Travel Associations regarding the state of air services in 1991. Respondents frequently voiced concerns regarding the high taxes on travel and the complexity of the existing fare structure. When surveyed regarding the effectiveness of deregulation with respect to the needs of travellers, 48 per cent of the respondents felt that deregulation has not responded to travellers' needs; 22 per cent felt that it has; and 30 per cent held no opinion. Of those who felt deregulation was beneficial, 47 per cent cited lower fares as the prime benefit. The most frequently cited drawbacks of deregulation were an increase in the number of airline bankruptcies and mergers, an increase in air fares, and a decrease in service to more remote areas.

Airline Revenues

FIGURE 3.17
Yields: Air Canada and Canadi*n



Constant 1986 Dollars

The overall impact of business and economy fare increases combined with the continually shifting discount structure is most effectively measured by the average revenue derived by carriers per passenger-kilometre flown (commonly referred to as the "yield"). This measure reflects the system-wide fare mix for all passengers carried.

In 1991, the average yield for Air Canada and PWA Corporation increased by 4.6 per cent from 1990. This follows increases of just under six per cent in 1990 and about 4.5 per cent in both 1989 and 1988.

When measured in constant dollars, the average yield for Air Canada and Canadi*n remained unchanged from 1990. In fact, except for a one per cent increase in 1990, after Wardair was acquired by PWA Corporation, the majors' yields have remained virtually unchanged since 1988. An 8.6 per cent decrease between 1987 and 1988 reflects a sharp drop in domestic yields as a result of a price cutting campaign initiated by Wardair.

The fact that yields have remained relatively constant during the past three years is attributable to the level of competition in both domestic and international markets and to the increasing proportions of long-haul (and lower yield) domestic and international flights in the major carriers' operations. Also, while some passengers pay full fare or business class fares, most Canadian travellers either adapt their plans to take maximum advantage of widespread discount fare options, or fly only when a sufficiently low discount is offered.

Average yields for the affiliates are considerably higher than those of the majors, reflecting both higher per seat kilometre operating costs and lower proportions of discount traffic. In 1991, the average yield for the majors' affiliates increased by almost 5.5 per cent.

Fleet

Air Canada

Air Canada continued with its fleet modernization plan and announced an aggressive growth strategy for 1992.

In 1991, Air Canada reduced its fleet by one aircraft. Three B-747-400 combi (combination passenger/cargo) aircraft delivered during the summer were parked in the California desert and put up for sale as part of a cost reduction program announced in 1990. However, after failing to find a buyer for the aircraft, the airline announced in November 1991 that it would put them into service, beginning April 1992, to replace B-747-200 combis on select routes (Toronto-London, Toronto-Los Angeles, and Montréal-Paris). Two B-747-200's will be converted to an all-passenger configuration to provide additional capacity on long-range routes. As well, the DC-9 fleet was upgraded to include business class, allowing the airline to offer this service system-wide. These changes will add approximately 4.5 per cent more seats to Air Canada's fleet in 1992 and cause a trickle-down effect that will see larger aircraft replacing smaller aircraft on several of the airline's routes.

Six long-range Lockheed L1011 aircraft were sold to Delta Airlines in May while eight older L1011's remain parked in the southern U.S., pending their disposal. To compensate for the subsequent loss of long-range capacity, Air Canada modified a number of its B-767 aircraft to increase their range. Deliveries of the Airbus A320 continued in concert with the retirement of the B-727.

Air Canada also maintains an all cargo service with its fleet of five DC-8 aircraft, of which one is up for sale.

TABLE 3.7
Major Airlines' Fleet Composition

	1990		1991		On Order	
Air Canada	5	DC-8's (all-cargo)	5	DC-8's (all-cargo)	21	A320's
	14	L1011's[1]	8	L1011's[1]	6	B-767-300ER's
	28	B-727's	18	B-727's		
	6	B-747's	9	B-747's		
	21	B-767's	21	B-767's		
	35	DC-9's	35	DC-9's		
	7	A320's	19	A320's		
	116		**115**			
Canadi*n	8	A310's	3	A310's[2]	1	B-747-400
	11	DC-10's	8	DC-10's	14	A320's
	1	B-747	2	B-747-400's		
	10	B-767-300ER's	12	B-767-300ER's		
	58	B-737's[3]	54	B-737's[3]		
	88		5	A320's		
			84			

Notes: [1] Eight are in desert storage. Excludes three L1011's sold to Delta Airlines - to be delivered in early 1992.

[2] Three A310's are in storage pending disposal.

[3] Includes eight B-737's assigned to Canadian North, a division of Canadi*n.

Canadi*n

*Canadi*n continued to rationalize and modernize its fleet.*

In 1991, Canadi*n reduced its fleet by four aircraft. A second B-747-400 was delivered in February and put into service on the airline's long-haul Asian routes shortly thereafter. A third B-747-400 is scheduled to enter service in May of 1992. Two B-767-300ER (extended range) aircraft were acquired during the second quarter of 1991 and five new A320's were deployed on transcontinental routes.

Three DC-10 aircraft, sold to Potomac Capital Corporation in 1990, left the fleet during 1991. Five of eight ex-Wardair A310's were sold to Polaris Aircraft Leasing and the remaining A310's were removed from operational service, pending their disposal. As well, four B-737's were retired. The airline also announced that two B-767-300ER May 1992 delivery positions will be sold as part of an on-going cost reduction program.

Affiliates

The affiliates continued to dispose of older aircraft and add new turboprops and jets.

Air Alliance, Air Canada's Québec affiliate, added four de Havilland Dash-8 aircraft to its fleet. AirBC retired its four de Havilland Dash 7's and added six Dash 8-300's. Canadi*n's partner airline in Québec, Inter-Canadien, had a fleet of 12 ATR-42 aircraft at the end of 1991 (four were acquired from Ontario Express). After Air Ontario's acquisition of Air Toronto, it decided to serve the latter carrier's routes with its own aircraft. Air Toronto's aircraft were returned to the manufacturer. Time Air, Canadi*n's western Canada affiliate, added five F-28's to its jet fleet and upgraded its turboprop fleet by retiring its Dash 7's and by adding

Dash 8's. (Refer to Appendices C.2 and C.3 for detailed information on the composition of the affiliates' fleets.)

Independents

Independent carriers continued to re-equip their fleets.

Independent carriers also continued their re-equipment programs. Regional carriers upgraded their fleets using state-of-the-art turboprops while charter carriers added newer and larger aircraft to their fleets. Nationair acquired a B-747, three B-757's, and disposed of four DC-8's, while Air Transat added three ex-Air Canada B-727's to its fleet of four L1011's. Canada 3000 continued to serve its customers with a fleet of four B-757's. (Refer to Appendix C.4 for detailed information on the composition of independent Canadian jet carriers' fleets.)

Four Year Summary

Since 1988, Canadian airlines have embarked on extensive re-equipment programs.

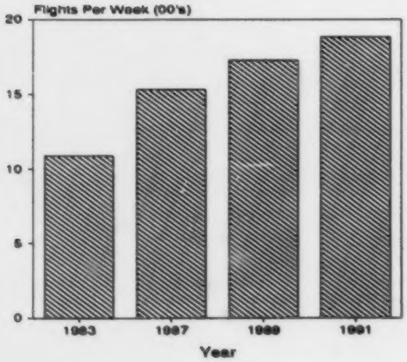
While the number of aircraft operated by Air Canada and Canadi*n has remained fairly constant since 1988, both airlines have instituted extensive re-equipment programs centred around three high-technology aircraft types: the B-747-400's for long-range routes; the B-767 for transcontinental and trans-Atlantic routes; and the A320 for a variety of domestic and transborder routes. Both airlines have disposed of surplus and parked older aircraft. Canadi*n has retired Wardair's fleet since its purchase in 1989.

Affiliate airlines have grown in number and size, modernizing their fleets with advanced technology turboprops, like the Dash 8, and commuter jets, like the BAe 146. Charter airlines have also upgraded their fleets, employing larger, more modern aircraft and retiring less efficient ones. Airlines embark on re-equipment programs mainly because newer aircraft are less expensive to operate and maintain while offering greater passenger appeal.

Concentration and Competition

Prior to May 1984, when government policy removed the distinction between national, regional and local carriers, the airline industry operated as a three-level system with prescribed roles for participants in each level; smaller airlines functioned as collectors and distributors for larger regional and national mainline carriers through a tightly-controlled administration of licence and route authorities. Competition was intentionally limited and there were few routes in the network served by more than one carrier. At that time, Air Canada carried well over half of all passenger traffic and accounted for almost two thirds of all passenger revenues. The next largest market shares were held by Canadian Pacific Airlines, with 18 per cent of passenger traffic, and Pacific Western Airlines, with 16 per cent.

FIGURE 3.18
Domestic Air Services
Direct or Same-Plane



Since the mid-1980's, two large carrier families, headed by Air Canada and Canadi*n, have emerged in Canada's airline industry. These families were created through a series of acquisitions, mergers, and alliances to produce two fully competitive coast-to-coast networks with transborder and international operations. This arrangement has allowed the affiliate carriers to re-equip their fleets with modern turboprop and small jet aircraft, to take over routes from their parent airlines that are more suited to being served with their smaller aircraft, and to offer national, brand-name service to the communities served. Some of these carriers have also extended the affiliation concept to a third level of smaller local carriers.

The resulting consolidation of the industry has been accompanied by a significant expansion of air services, as more and more communities have been tied into one or both hub-and-spoke networks. This has dramatically increased the number of domestic city-pairs with direct (non-stop), indirect (same plane, one or more stops) and connecting (same airline) service. In 1983, there were 1,088 weekly unidirectional non-stop and same-plane air services offered in Canada; by 1987 there were over fifteen hundred and, by 1991, almost nineteen hundred.

Concentration

Although this rapid expansion has been accompanied by higher concentration at the industry level, it has not resulted in increased carrier domination on individual city-pairs. In fact, the opposite has occurred. An examination of 40 sample city-pairs[1], including most major domestic markets, showed that from 1983 to 1991, the percentage of total seat capacity offered by the dominant carrier or family declined in 75 per cent of the cases; it now averages about 39 per cent -- a drop of almost 40 percentage points. This contrasts with the U.S. experience under airline deregulation, where industry concentration resulted in high levels of carrier domination in city-pair markets and the creation of "fortress" hubs to pre-empt competition.

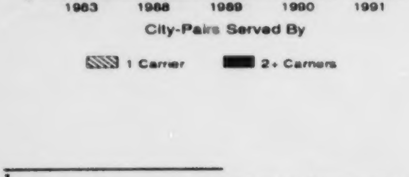
Although Canada's airline industry is concentrated on two large carrier families, dominance at the route level has declined significantly.

In Canada, the extensive duplication of route coverage between the two rival networks has brought alternative air services to many communities for the first time. By 1991, the Air Canada and Canadi*n families were both present in all of the top 43 communities in the air transportation network, where over 95 per cent of domestic travellers originate or terminate their travel. Independent carriers provided additional scheduled service to 30 of these communities. This compares to 1987 when the majors and their affiliates were both present in 35 of the top 43 communities and when independent carriers, including Wardair, provided additional service to 29 communities.

Competition on Scheduled Services

The establishment of hub-and-spoke operations has enabled the two families to expand into many new markets. By 1991, over 28 per cent of the city-pairs in Canada that received direct and/or same-plane service had competing service offered by two or more carriers, compared to 17 per cent in 1983. (For the 1988-1991 period, if a major carrier and its affiliate were both present on a route, they were counted as one carrier). The slight dip in the number of city-pairs served by two or more carriers in 1991 compared to 1990 reflects a cessation of service by two independent carriers, Intair and City-Express. Furthermore, the two families provide competitive services on 139 of the top 150 domestic city-pairs, which account for about 88 per cent of total passenger traffic in Canada. In addition, independent carriers provide competitive services on 20 of these routes, including four where only one family is present. It is clear that not only has the overall level of air services increased since the economic regulatory controls were relaxed in 1984 but that more competitive options are now available to the travelling public.

FIGURE 3.19
Competition on all Domestic City-Pairs



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[1] A list of these routes is provided in Appendix C.1.

Vigorous price and service competition among airlines has produced an expanded array of travel options.

Competition in the airline industry, however, goes far beyond simple market presence. It includes capitalizing on all facets of the business including price, convenience, bonuses, comfort/amenities, status, etc., in order to offer an improved and differentiated air transportation product in a variety of different markets. In today's liberalized regulatory environment, the orientation has clearly shifted toward the consumer. The airlines offer numerous competitive travel options, react quickly to changing consumer demands, and take initiatives to stimulate new demand where opportunities arise.

The Air Canada and Canadi*n families generally move quickly to match each other's fare adjustments so as to avoid placing themselves at a competitive disadvantage. They also quickly match other competitors' discount fares if their market share is at stake. This is demonstrated by their decision to match Intair's discount fares on the Toronto-Ottawa-Montréal corridor routes in 1989 and 1990 by quoting time-restricted fares on flights departing at about the same time as Intair's and to counter the charter carriers' domestic fares during the past two years. Their affiliates also offer a similar range of discount fares on most of their routes. The increasing availability of these discounts, plus the large proportion of passengers who use them, confirm the active role of price segmentation as a competitive tool in today's airline markets.

Convenience is also an important competitive tool. For example, Air Canada's passengers benefited from the less-congested Terminal 2 facilities at Pearson International Airport in Toronto for some time. However, Canadi*n enhanced its position by relocating its operations in Toronto to the newly constructed Terminal 3 in February, 1991. Air Canada responded by refurbishing its own facilities.

Another competitive tactic for enhancing convenience is the scheduling of additional flight frequencies in competitive markets in order to provide the traveller with more frequencies to choose from. Such moves are often matched by the competing carrier; aircraft availability and airport capacity constraints can, however, curb a competitive response. Furthermore, in order to provide their customers with brand-name service to the largest possible number of destinations, both families moved, over the past four years, to increase their regional coverage by tying in smaller, local affiliates.

Both airline families offer attractive bonuses to travellers through their **Aeroplan** and **Canadian Plus** frequent flyer plans, including free flights, upgraded cabin service, special rates on car rentals and hotel accommodation, shopping discounts and other gifts. Agency surveys of the Canadian Professional Sales Association/North West Commercial Travellers Association/Maritime Commercial Travellers Association and Alliance of Canadian Travel Associations members over the past three years show that 79 per cent of regular flyers are members of a frequent flyer program and, on average, are enrolled in two plans. Also, the fact that about 80 per cent of the respondents indicate that these plans are either a very important or moderately important reason for their selection of an air carrier, provides clear evidence of the powerful role played by these competitive tools in influencing consumer choices.

Comfort and amenities is another broad competitive category. Both families offer their own combinations of terminal facilities and services, aircraft cabin decor, seat size and placement, meal and bar service, and other hospitality items. Competitive standards are relatively high in this area as shown, for example, by Canadi*n's efforts to maintain the highly-reputed quality of Wardair's in-flight service, by Air Canada's decision to add business class to its 35 DC-9's, and by the introduction of business class service (often offered by both competitors) on numerous affiliate carrier routes.

Premium fares and complementary passes cater to passengers who seek a higher level of status or special privileges such as priority check-in, use of business facilities, or access to VIP lounges.

The Air Canada and Canadi*n families are competing in all regions of the country. In the absence of regulatory constraints on the majority of routes in southern Canada where competition exists, there has been a great deal of price and service innovation to differentiate new products. While fare reductions are one way of stimulating the market, they can be quickly matched by a competitor. By providing service enhancements, airlines try to keep their edge a little longer. The measures introduced by carriers over the past few years to improve service have unquestionably benefitted air travellers in Canada.

Competition From Charter Carriers

The charter carriers provide effective competition on several domestic routes.

Even though Wardair was merged into Canadi*n in 1989 and despite some charter carrier bankruptcies over the past couple of years, the domestic charter sector continues to offer year-round competitive services on several key southern domestic routes. These charter programs have blurred the distinction between scheduled and charter service by offering inexpensive one-way and return air fares and feature flexible return dates, open jaw returns (where a traveller can fly to one city and return from another), reduced fares for children and senior citizens and last minute reservations.

During the peak summer travel months in 1991, the charter carriers (Air Transat, Canada 3000, First Air, and Nationair), whose services are marketed by several tour operators, provided head-to-head competitive service on 14 domestic city-pairs that account for over 24 per cent of the domestic passenger market, and offered the only direct air service on six others. Furthermore, six of these city-pairs are now receiving year-round charter service, with Toronto-Vancouver being served daily.

The domestic charter programs are having an impact on the major carriers' traffic and fares.

The charter carriers are having an impact on the major carriers' traffic. For the ten city-pairs which included Toronto, the charter carriers provided about eight per cent of the total available seats during the third quarter of 1991 and about five per cent overall for the year. **The total number of passengers carried on domestic charter flights in 1991 is equivalent to the annual traffic volume of the sixth largest domestic passenger market.**

These charter programs are also having an impact on fares as **Air Canada and Canadi*n are discounting fares more in markets where the charter carriers are active than in those where they are not present.** During the second quarter of 1991, over 72 per cent of the passengers carried by Air Canada and Canadi*n on the city-pairs where the charter carriers were active travelled on some form of discount air fare. This compares to 61 per cent of the travellers on the top 25 city-pairs where domestic charters were not offered. Furthermore, the passengers who travelled on routes where there was charter competition travelled on fares that were discounted by an average of 45 per cent; this compares to an average discount of 33 per cent for passengers travelling on the other top 25 city-pairs. Thus, even a relatively small amount of additional competition can have a significant impact on fares.

It is clear that the domestic charter programs represent an important source of competition for the scheduled carriers in several domestic markets. Due to the magnitude of their presence and the nature of their operations, their role in the market-place is one that is more than simply providing low cost air travel and this role cannot be overlooked when assessing the level and depth of competition prevailing in the Canadian air transport industry.

Competition - Alternative Sources

The recession has caused companies to scrutinize their travel budgets.

During this recession, travel in general, including business travel, is down. Many companies have laid off management employees and other white collar workers who tend to travel as part of their job. Furthermore, many firms are carefully reviewing their travel budgets and are finding alternative ways to travel or are, in some cases, developing alternative ways of doing business.

VIA Rail's total ridership in 1991 increased five per cent from 1990 and its traffic in the Québec City-Windsor corridor was up six per cent for the year. Its corridor service includes city-pairs such as Toronto-Montréal, Toronto-Ottawa, Ottawa-Montréal, Toronto-Windsor and Québec City-Montréal, where air, rail, and bus passenger transportation services are available. VIA also improved its service in the Montréal-Ottawa-Toronto triangle by adding 22 additional weekly frequencies. Although the air mode is not VIA's main competitor, future improvements in rail passenger service can be expected to have an impact on the demand for air services on short to medium distance city-pairs, especially in the Québec City-Windsor corridor, where both modes provide service.

Increasingly affordable technologies like facsimile machines, teleconferencing, computer-to-computer link-ups, etc., are proving to be popular ways of communicating, especially in this period of restraint. While the demand for travel will undoubtedly recover in the future as the economy improves, the legacy will be that many business people will have developed skills in using these technologies and ways of doing business that will tend to diminish the need to travel.

International Forces

Numerous international forces are impacting on Canadian airline executives' strategic decisions.

A number of forces are at work internationally that are influencing the structure of the international air transport sector and, indirectly, the Canadian air transportation industry. Due to the marketing advantages that accrue to a large carrier, consolidation in the industry has been occurring, not only in North America but worldwide. Carriers with large networks attract passengers by virtue of their ability to offer numerous flights to many destinations and to offer attractive marketing initiatives, such as frequent flyer plans. As a result, airlines have been entering into alliances with other carriers in order to extend their reach and enhance their market power. In some cases, these affiliations have been cemented with equity participation. Further affiliations among carriers can be expected in the future.

Privatization of state-owned carriers has occurred in a number of countries, including Canada. Faced with mounting fiscal pressures, governments will be under increasing pressure to eliminate subsidies to their national carriers. To the extent that privatization of state-owned carriers occurs, competition in the international sector will increase.

There are also forces that are increasing competition among international gateways (e.g. countries not liberalizing international air transport regulation in unison and the introduction of new generation aircraft that permit the overflying of previous gateways). Such competition can only be expected to increase in the future. As consumers become more sophisticated and knowledgeable about what air services are available, they will demand more choices and will dictate, through their travel decisions, what services and routings they prefer.

As a result of these and other forces at work in the international theatre, airline executives cannot consider only domestic factors in developing long-term strategic plans for their companies. Canada's major carriers are also the country's major international carriers. Given that domestic operations have to be linked to both transborder and international operations, developments that occur in any one of these three markets affect the others. Competition in domestic markets cannot be assessed in isolation from the other two main areas of operation. Nor is it correct to assume that changes in one of the three markets have no effect on the other two. Furthermore, a government policy that would foster the continuation of a competitive Canadian air transport industry and contribute to its growth may also affect the performance of Canadian carriers in the transborder and international markets.

Carrier Performance

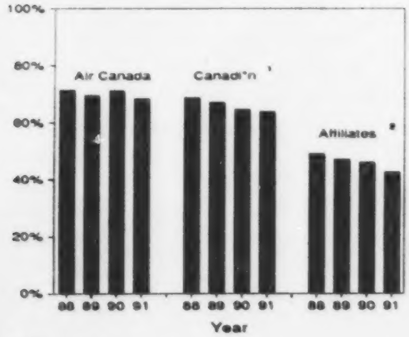
The severity of the economic recession, aggravated by the Gulf War made 1991 the most difficult year in the history of Canada's two major airlines, as both Air Canada and Canadi*n posted record losses.

Air Canada

Air Canada posted a record $218 million net loss for 1991.

Air Canada announced a $218 million net loss for 1991 compared to a $74 million loss in 1990. Its consolidated statements include Air Nova's financial results since the latter's acquisition on January 1, 1991. Air Canada's operating loss of $200 million includes staff reduction and retirement costs of $36 million. Operating revenues decreased 9.4 per cent to $3,569 million, mainly due to year-over-year declines of nine per cent in passenger revenue and 14 per cent in cargo revenue caused by poor market conditions and Air Canada's decision to suspend service on specific international routes. Operating expenses decreased four per cent, led mainly by decreases in salaries and wages, due to staff reductions, and aircraft fuel. The $122 million decline in fuel expense was primarily due to a reduced flight schedule, lower fuel prices and the increased use of fuel-efficient aircraft. Depreciation expense was up, reflecting the addition of 12 A320's to the fleet. The A320's and three new B-747-400's also contributed to an increase in the airline's debt and a $54 million increase in interest expense on that debt. As well, aircraft rent expense rose $20 million, of which 75 per cent was attributable to Air Nova. The loss from enRoute card operations was $7 million, down from a loss of $48 million in 1990.

FIGURE 3.20
Load Factor
(Scheduled and Charter)



NOTES:
1. Includes Wardair in 1989.
2. Scheduled Passenger Traffic Only.

TABLE 3.8
Air Canada's Financial Results ($ millions)

	1988	1989	1990	1991
Operating Revenues	3,404	3,650	3,939	3,569
Operating Expenses	3,290	3,531	3,889	3,733
Operating Income (Loss)	108	103	(11)	(200)
Net Income (Loss)	89	149	(74)	(218)

Despite a 14 per cent reduction in Air Canada's available seat-kilometres, its revenue passenger-kilometres decreased by a greater amount. This reduced its passenger load factor to 68.4 per cent in 1991 from 71.4 per cent in 1990.

PWA Corporation

PWA Corporation recorded a $161.7 million loss in 1991.

PWA Corporation, Canadi*n's parent company, incurred a $161.7 million loss for 1991 compared with a $14.9 million loss for 1990. PWA's consolidated statements for 1991 include the results of Time Air, Ontario Express and Inter-Canadien from their dates of acquisition. Operating revenues grew by almost five per cent. However, if Canadian Regional Airlines' contribution is excluded, operating revenues would have declined by 5.5 per cent. Operating expenses increased by seven per cent (the exclusion of Canadian Regional would have resulted in a decrease of 1.7 per cent). Large increases in depreciation and aircraft rent expenses, reflecting the purchase and lease of new aircraft, were reported. These additions to the fleet contributed to a $24 million dollar increase in the company's interest expense. PWA Corporation's 1991 operating loss included a $22 million charge for staff reduction.

Canadi*n's passenger load factor was down slightly in 1991, to 64 per cent from 64.8 per cent in 1990.

TABLE 3.9
PWA Corporation's Financial Results ($ millions)

	1988	1989	1990	1991
Operating Revenues	2,284	2,649	2,746	2,872
Operating Expenses	2,206	2,659	2,757	2,962
Operating Income (Loss)	78	(10)	(12)	(112)
Net Income (Loss)	30	(56)	(15)	(162)

Regional Affiliates

As a group, the affiliate airlines also posted losses in 1991.

Preliminary results show that, as a group, the Air Canada and Canadi*n regional affiliates faced many of the same difficulties as their parent airlines, posting a loss of over $30 million dollars. This compares to a net profit of $4.[illegible] million dollars in 1990. The affiliates' load factor declined about three percentage points in 1991 to 42.6 per cent.

TABLE 3.10
Financial Results of Air Canada's Connectors[1] and Canadian's Partners[2] ($millions)

	1988	1989	1990	1991
Operating Revenues	467.8	639.7	764.6	841.9
Operating Expenses	429.6	584.2	704.3	793.9
Operating Income (Loss)	38.2	55.5	60.3	48.0
Net Income (Loss)	2.1	(2.0)	4.2	(30.6)

Notes: [1] Includes Air Nova, Air Alliance, Air Ontario, Air BC and NWT Air.
[2] Includes Air Atlantic, Canadian Partner, Calm Air, Time Air, and Inter-Canadien, in 1991.

Fiscal Measures Affecting the Air Sector

On December 6, 1991 the federal government announced a series of fiscal measures that affect the transportation sector.

The Loss Offset Program allows airlines to apply for a three-cents per litre excise rebate on aviation fuel purchased during the 1991 and 1992 calendar years, excluding fuel used on international flights. Companies that choose to receive the rebate will have to reduce their tax losses by ten dollars for every dollar rebated. This will provide the industry with an immediate cash flow benefit, at the cost of lower carry-forwards to offset income taxes as conditions improve. Airlines that report financial losses will find the rebate beneficial.

The government also extended a withholding tax exemption on Canadian lease payments to non-residents for aircraft used on international services to cover aircraft used domestically. The extension, which applies to lease payments on contracts entered into after 1990, will allow airlines to benefit from lower financing costs available in foreign capital markets.

Northern and Remote Areas

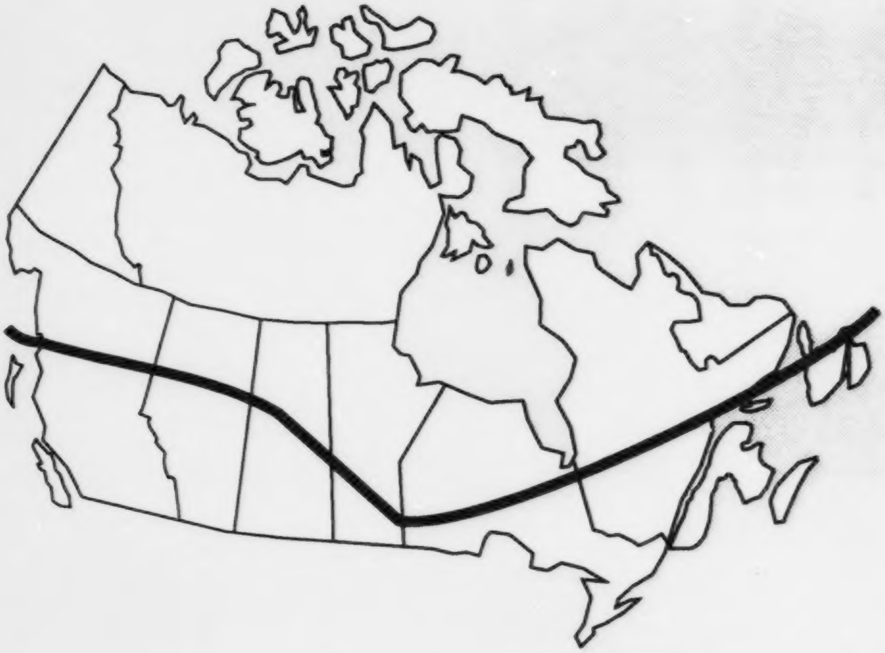
For air services, northern Canada includes the Yukon and Northwest Territories, and the northern part of most provinces. (Figure 3.21) In recognition of the importance of air services to northern and remote communities and the then perceived fragility of existing air service networks, a certain degree of regulation was retained in the *NTA, 1987* for this designated area.

Northern Industry Structure

Licences

At the end of 1991, 587 carriers were licensed by the Agency to provide a commercial air service to, from, or within the designated area. These carriers held

FIGURE 3.21: Northern and Remote Air Services



Scheduled Carriers Serving the North
1991

Carrier	Northern Network	Fleet
Air Canada Family		5 jets, 30 non-jets
AirBC	3 pts. in north Alta. & B.C.	15 non-jets
Air Alliance	4 pts. in north Que. & Nfld.	5 jets, 9 non-jets
Air Nova	3 pts. in north Que. & Nfld.	2 jets, 1 non-jet
NWT Air	5 pts. in the N.W.T.	13 non-jets
Aklak Air	6 pts. in the N.W.T.	7 non-jets
Air Tindi	3 pts. in the N.W.T.	4 non-jets
Buffalo Airways	3 pts. in the N.W.T.	6 non-jets
Northerwestern Air Lease	6 pts. in north Alta., Sask., & the N.W.T.	7 non-jets
Simpson Air	3 pts. in the N.W.T.	
Canadi*n		3 jets, 13 non-jets
Air Atlantic	3 pts. in north Nfld.	8 non-jets
Calm Air	20 pts. in north Man. & the N.W.T.	8 jets
Canadian North	18 pts. in north Man., Alta., Que., N.W.T., & Yukon	12 non-jets
Inter-Canadien	14 pts. in north Que. & Nfld.	26 non-jets
Ontario Express	5 pts. in north Ontario	7 jets, 29 non-jets
Time Air	12 pts. in north B.C., Alta., Sask., & Yukon	
Independents		9 non-jets
Air Inuit	17 pts. in north Que. & the N.W.T.	4 jets, 21 non-jets
First Air	22 pts. in north Que., Nfld., & the N.W.T.	19 non-jets
Air Manitoba	9 pts. in north Man. & Ont.	

1,009 licences, including 41 that authorized the holders to provide **scheduled air services.**

According to the most recent unit toll licence statistics, licences issued by the Agency authorized **scheduled air services** in the designated area to a total of 232 points of which 146, or 63 per cent, were being served at the end of 1991.

Air Canada and Affiliates

Despite lower traffic levels, northern airline networks remained intact and competitive.

In early 1992, Air Canada introduced weekday return DC-9 service between Montréal and La Grande, Québec. This is the first new domestic destination that Air Canada has added to its network in sixteen years and places it in direct competition with Canadi*n and its affiliates.

Most of Air Canada's presence in the north is maintained through its affiliate, NWT Air, which has developed its own northern connector network. In 1991, NWT Air added Air Tindi to its system but lost Delta Air Charter when the latter suspended scheduled service between Whitehorse and Yellowknife. Nevertheless, at year-end, NWT Air continued to code-share with five connector airlines that operated smaller aircraft and extended NWT Air's network to many points that cannot be profitably served by its two B-737 combi aircraft. During the summer months, an all-cargo Hercules aircraft supplements this service.

AirBC withdrew from Whitehorse and Fort St. John because of poor traffic loads. Air Alliance continued to compete directly with Air Atlantic and Air Schefferville on routes into Wabush/Labrador City, while Air Nova maintained its services into Goose Bay, St. Anthony and Blanc Sablon.

Canadi*n and Affiliates

Canadian North, Canadi*n's northern operating division, continued to operate passenger and cargo services across an extensive northern network using eight B-737 combi aircraft. Although traffic was down in 1991, Canadian North announced increased frequencies between Montréal and La Grande. Calm Air added service between Sanikiluaq, NWT and Churchill, Manitoba, while Time Air, Air Atlantic, and Canadian Frontier each continued to operate to several northern points within their respective networks. Canadian Frontier is an Ontario Express subsidiary that ceased operating under its own name on December 31, 1991, in favour of the Canadian Partner banner. The reintroduction of Inter-Canadien as an affiliate carrier in 1991 allowed Canadi*n to add service to several points in northern Québec.

Independents

During 1991, First Air and Air Inuit, both owned by Makivik Corporation of Kuujjuaq, Québec, began to code-share under First Air's code. The code-sharing permits both carriers to capitalize on their complementary route networks and common aircraft fleets. The new arrangement extends First Air's brand name throughout the Hudson Bay area in northern Québec and adds to its extensive network in the Northwest Territories. Although First Air terminated its jet service between Yellowknife and Iqaluit, it did add new jet services on the Ottawa-Montréal-Kuujjuaq-Iqaluit, and the Ottawa-Iqaluit-Nanisivik-Resolute-Yellowknife routes. Both services compete directly with Canadian North. First Air also added new turboprop services between Yellowknife, Holman Island and Coppermine and between Iqaluit, Coral Harbour and Rankin Inlet. The airline's service between Goose Bay and Ottawa was terminated in early 1992. At year-end, the Makivik group of carriers had a combined fleet of 34 aircraft and covered 43 points, 39 of which are in Canada's north.

In addition to starting new scheduled and charter services in southern Saskatchewan, Norcanair also introduced turboprop service from Saskatoon to Prince Albert, La Ronge, Fond du Lac and Uranium City in northern Saskatchewan. Air Manitoba continued to operate scheduled and charter passenger and all-cargo services with BAe-748's in competition with Calm Air in both northern Manitoba and the Northwest Territories.

As in the south, competitive networks have evolved throughout northern areas, giving consumers greater service options.

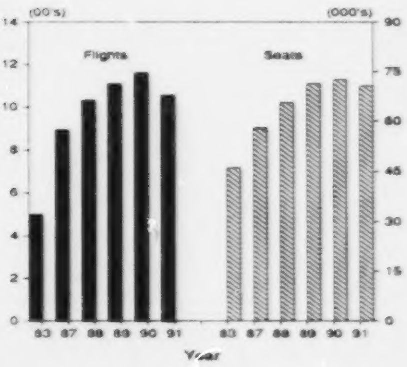
Other independent carriers that added scheduled services in the north during 1991 included Air Satellite, Air Tindi, Air West, Alkan Air, Athabasca Airways, Bearskin Lake Air Service, Buffalo Airways, Central Mountain Air, Keystone Air, Labrador Airways, Norontair and Prairie Flying Service.

Since economic regulatory reform of the airline industry, the evolution of air services in Canada's northern and remote areas has followed a pattern similar to that which has occurred in the south. Network competition now exists between Canadian North, NWT Air and First Air, especially on major south-north corridors. As in southern markets, the affiliated regional carriers set up local connectors of their own. The local carrier affiliations have permitted the regionals to offer efficient "brand name" service in markets that cannot be served profitably by the affiliates' larger jets and turboprop aircraft. Northern and remote communities have also benefitted from the increased access to national airline networks, greater service levels and options, and a wider selection of full and discount fares.

Northern Industry Operations

Service

FIGURE 3.22
Weekly Scheduled Flights and Seats; Northern and Remote Areas: Third Qtr.



An examination of 1991 service indicators for 60 northern city-pairs[1] (i.e. routes to, from, or within the north) showed that the total number of flights offered decreased by nine per cent from 1990. However, total flights offered were still up 18 per cent from 1987 and up 111 per cent from 1983 levels. While the number of seats offered was down three per cent over the same period in 1990, weekly seat capacity offered by the airlines on the sample routes was 22 per cent higher than in 1987 and 54 per cent higher than in 1983.

In terms of aircraft type, jet flights decreased by two per cent in 1991 while non-jet flights decreased by 14 per cent. However, the north enjoyed 15 per cent more jet flights than in 1987 and 12 percent more than in 1983. Similarly, non-jet flights in 1991 were 20 per cent higher than in 1987 and 630 per cent higher than in 1983. The large increase in non-jet flights is largely due to the growth of smaller regional and local carriers throughout the north.

Despite the overall decrease in service for the northern sample, several city-pairs experienced increases in service including Cambridge Bay-Yellowknife, Winnipeg-Gillam, Rankin Inlet-Winnipeg, and Iqaluit-Montréal. Air Canada also added new services in the north with the start-up of its Montréal-La Grande jet service in direct competition with Canadian North.

During the year, the Agency again consulted interested parties in northern and remote areas. These people were of the view that northern and remote communities were linked to competing local, regional and national airline networks and that discount fares were widely available.

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[1] A list of these routes is provided in Appendix C.1.

Over 60 per cent of respondents to the Agency's Northern Air Survey indicated that the overall level of air services remained unchanged from 1990. For those respondents noting a change, the majority felt that the number of carriers (scheduled and charter) providing service to their community or region increased in 1991.

Two-thirds of the respondents also felt that the overall quality of passenger services in the north remained unchanged from 1990. Of those noting a change in passenger services, a small majority felt there was a slight deterioration in passenger services, mainly in the area of on-time performance, cancelled flights, convenience of connecting flights, and baggage handling. A quarter of the respondents also indicated that in 1991, members of their community or district had negotiated confidential contracts for the carriage of passengers and/or cargo. This is up from 13 per cent in 1990.

Cargo

Air cargo services are crucial to northern and remote communities. In fact, 12 of the top 30 Canadian airports, ranked by volume of cargo handled on scheduled services, are in the north (i.e. Yellowknife, Goose Bay, Iqaluit, Norman Wells, Kuujjuaq, Resolute, Whitehorse, Inuvik, Nanisivik, Kuujjuarapik, Cambridge Bay and La Grande).

Canadian North's eight B-737 combi jets, NWT Air's two B-737's and First Air's and Air Inuit's four B-727 combi's and turboprops represent considerable freight capacity to meet the demands of northern shippers, as well as offering integrated access to both southern and international airline networks. Moreover, between 1988 and 1991, several smaller independent carriers such as Ptarmigan Airways and Air Manitoba have been increasing both capacity and available choices for the shipment of air cargo.

Over half of the respondents to the Agency's Northern Air Survey felt that cargo services were unchanged from 1990. Of those noting a change, the majority felt that cargo services had deteriorated, including available capacity, reliability, and connecting services. Concerns were also expressed to Agency officials about the quality of air cargo services in the Baffin Island and Belcher Island regions of the Northwest Territories. Over 60 per cent of the respondents indicated that cargo rates had increased in 1991.

Tariffs

An examination of 36 sample routes[1] within the designated northern area or connecting with northern points showed that northern air fares went up in 1991 as they did in southern Canada. During 1991, the average standard economy fare had risen an average of about nine per cent, with similar but less uniform increases in discount fares. This was confirmed by the Agency's Northern Air Survey, where more than three-quarters of the respondents indicated that northern air fares had increased in 1991. However, as was the case in southern Canada, most of this increase is attributable to fare increases announced in the latter part of 1990.

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[1] A list of these routes is provided in Appendix C.1.

During the year, discount air fares were offered to, from and within the north as carriers attempted to stimulate traffic within their respective networks as the recession continued to take hold. There was an average of nine discount fares per route in 1991; this remained unchanged from 1990. In terms of the level of discounts in the north, 43 per cent of the "lowest" discount fares offered on the sample routes were discounted by 63 to 65 per cent from the regular economy class fare. A further thirty-four per cent of the discount fares offered were discounted between 53 and 56 per cent below the economy class fare. The carriers that offered these fares included members of both the Canadi*n and Air Canada families, First Air and several other independents carriers operating northern services. Such competitive pricing occurred in 30 of the 36 northern routes sampled, with most discounts being offered on services to/from Yellowknife, Iqaluit and Rankin Inlet. In 1991, over 41 per cent of the passengers were flying on discount fares on northern routes, down from 49 per cent in 1990.

Business-class fares continued to be offered on 14 of the 36 routes surveyed, indicating that the north had similar choices in terms of price and quality of service as in southern airline markets.

Northern Views On Air Transportation Regulation

In its 1991 Northern Air Survey, the Agency asked specific questions about air service regulation in northern Canada. Almost 70 per cent of the respondents had no opinion on the effectiveness of the "reverse onus" market entry test. Of those who did offer an opinion, only 12 per cent thought that it has been effective; 20 per cent indicated that it has not. While half of the respondents offered no opinion on whether the "reverse onus" test should be retained, 40 per cent indicated that it should.

For air services to, from, or within northern and remote areas, the Agency may hear complaints about unreasonable passenger fare levels or increases, and order the reduction of existing fares. Over half of the respondents also offered no opinion on whether the northern and remote area pricing regulations have been effective. Of those who did offer an opinion, almost two-thirds felt they were not effective. However, almost three quarters of the respondents indicated that some form of air pricing regulation for northern and remote areas of Canada is required.

RAIL SERVICES

Highlights of 1991

Structure

CP Rail and CN announced the integration of their U.S. rail subsidiaries with their Canadian marketing and operations to form new organizations called CP Rail System and CN North America.

Operations

CN entered into strategic marketing alliances with major U.S. railways such as the Union Pacific, Burlington Northern and Norfolk Southern.

CP Rail joined forces with Norfolk Southern to operate the first RoadRailer service in Canada.

Performance

For the second straight year, a strong recovery in wheat shipments offset other commodity traffic declines caused by the economic recession.

CN's operating income increased by $100 million, while CP Rail's declined by $200 million, largely due to work force reduction charges and asset write-downs.

Developments

CP Rail started raising overhead clearances of its tunnels through the Rocky Mountains to permit the operation of double-stack trains.

CN announced the construction of a $155 million tunnel beneath the St. Clair river between Sarnia and Port Huron which, once in operation, will cut 12 hours off the transit time across the busy Chicago/Toronto intermodal route.

Industry Structure and Operations

Structure

The two Class I freight railways in Canada, CN and CP Rail, account for over 90 per cent of all freight revenues in Canada, with CN earning about one-third more than CP Rail. The remaining freight revenues accrue to Class II railways which fall into one of three categories: regional railways, lines in Canada which belong to U.S. railways and terminal or switching railways.

CN and CP Rail form separate organizations to handle all North American operations.

CN and CP Rail in 1991 have continued to restructure their enterprises in light of the growing move towards "continentalization". In this vein, they each have formed marketing and operating organizations covering all their respective North American operations, and entered into alliances with U.S. railways.

In 1991, CP Rail finalized the purchase of the Delaware and Hudson Railway (D&H), after confirming operating rights over other U.S. railways to ensure access to the major ports of New York and Philadelphia. This transaction followed CP Rail's decision in 1990 not to sell its stake in the Soo Line. Instead CP Rail bought the remaining shares not under its control (46 per cent) to establish full ownership of the U.S. railway. These transactions positioned CP Rail firmly in the mid-west and northeast U.S. rail markets. Shortly after the finalization of the D&H purchase, CP Rail announced the restructuring of its operations to integrate its two U.S. railways with its Canadian operations to form CP Rail System. Similarly, in December 1991, CN announced the formation of CN North America, which consists of CN and its three U.S. rail subsidiaries: the Grand Trunk Western Railroad, the Duluth, Winnipeg and Pacific Railway, and the Central Vermont Railway.

To further their presence in the United States, the two Class I railways have created alliances with some of the major U.S. railways. CN has entered into separate agreements with Union Pacific, Burlington Northern and Norfolk Southern designed to help capture transborder freight shipments from the highways by vigorously marketing available boxcar capacity returning from south of the border. CP Rail and Norfolk Southern have combined forces to offer the first direct RoadRailer service to/from Canada. CP Rail handles, via the Windsor tunnel, RoadRailer trains between Detroit and Toronto. Additionally, CP Rail has entered into a marketing agreement with Southern Pacific.

Some Canadian regional railways are in financial difficulty due to problems in the resource sectors they serve.

The regional railways are predominantly resource-based carriers and are sensitive to the financial health of their major customers. For instance, Algoma Central Railway experienced financial difficulties in 1991 as a result of the continuing uncertainty surrounding the future of its major customer, Algoma Steel Corporation. Dofasco, the parent of Algoma Steel, discussed the possibility of closing its mining operations in Wawa, Ontario. This could have caused the demise of Algoma Central, which generates 60 per cent of its freight revenues from the iron ore operation of Algoma Steel. However, a restructuring of the steel company involving the Ontario government, employees of Algoma Steel and various banks has recently been announced. While this may result in their having to negotiate reduced rail rates, it is still good news for Algoma Central. Earlier in the year Algoma Central, for the second straight year, received a five million dollar subsidy from the Ontario government.

Ontario Northland Transportation Commission (Ontario Northland) suffered from a situation similar to that of Algoma Central. The closure of two mines in northern Ontario in 1990 resulted in lost freight revenues of over $12 million that year. Ontario Northland responded with a restructuring program that included a reduction in their labour force through attrition and early retirement.

Figure 4.1 illustrates the two regional Class II railways mentioned above, as well as B.C. Rail, Central Western Railway and Quebec North Shore and Labrador Railway. These five companies account for the bulk of the traffic moved by Class II railways in Canada.

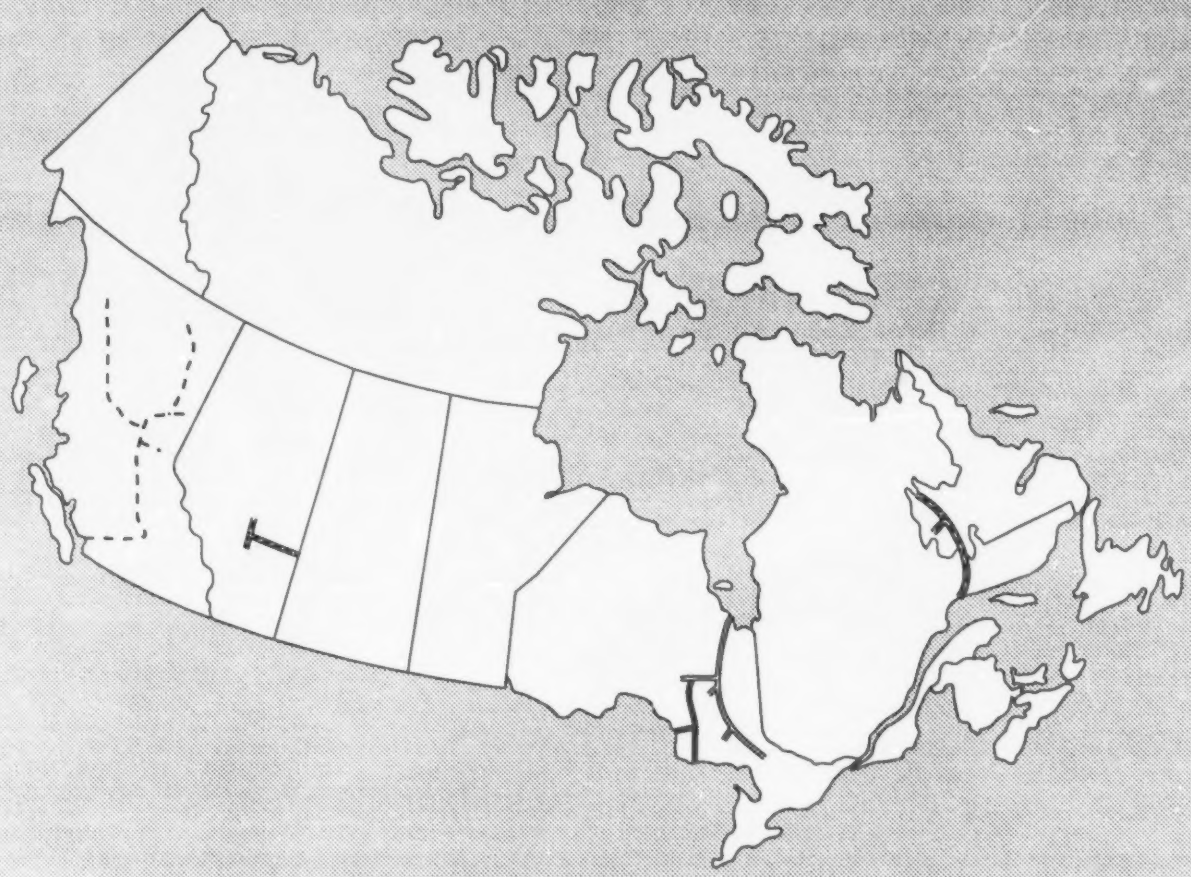
Important to structural changes within the rail system in Canada is the December 1990 Supreme Court of Canada decision involving Central Western. The court decision relieved Central Western of any obligation to adhere to collective labour provisions in effect prior to its purchase of the Stettler subdivision from CN in 1986. This outcome could provide greater flexibility for short line railways to operate under a more competitive cost structure. At the same time it may increase the scope for rationalization among major railways, by making it more attractive for short-line operators to buy branch lines.

Line conveyances constitute one of the structural developments since the inception of the *NTA, 1987*. Since 1988, the Agency has approved nine conveyances of rail lines totalling almost 700 kilometres of track. Three of the nine line conveyances accounted for over 80 per cent of the total kilometres of track conveyed. These three conveyances occurred after the December 1990 Supreme Court of Canada decision. Central Western more than doubled its trackage with approval from the Agency in January 1991, for the purchase of over 210 kilometres of track from CP Rail in Alberta. Ontario Northland received approval from the Agency in February 1991, for the purchase of 250 kilometres of CN track in northern Ontario. CN also sold over 110 kilometres of track in southern Ontario to the Goderich-Exeter Railway Company in August of 1991. Figure 4.2 illustrates these three line conveyances in relation to a portion of the Class I rail network. Also shown is a 400 kilometre CN line (Truro-Sydney) in Nova Scotia, which is currently up for sale.

Several other line conveyances have taken place since 1988. While not significant in terms of length of track, they are strategically important. For instance, CN conveyed 25 kilometres of track to Conrail. This allowed Conrail access to Montreal's industrial area and its port. The Montreal port is one of Canada's busiest ports, especially in terms of container traffic. Two other significant line conveyances, both in terms of size and location, involve the CP Rail System south of the border. CP Rail's Soo Line has recently conveyed more than 500 kilometres of track in their rationalization of operations, while in March 1992 CP Rail System began negotiating with Conrail for 340 kilometres of track between Buffalo and Binghamton in New York state.

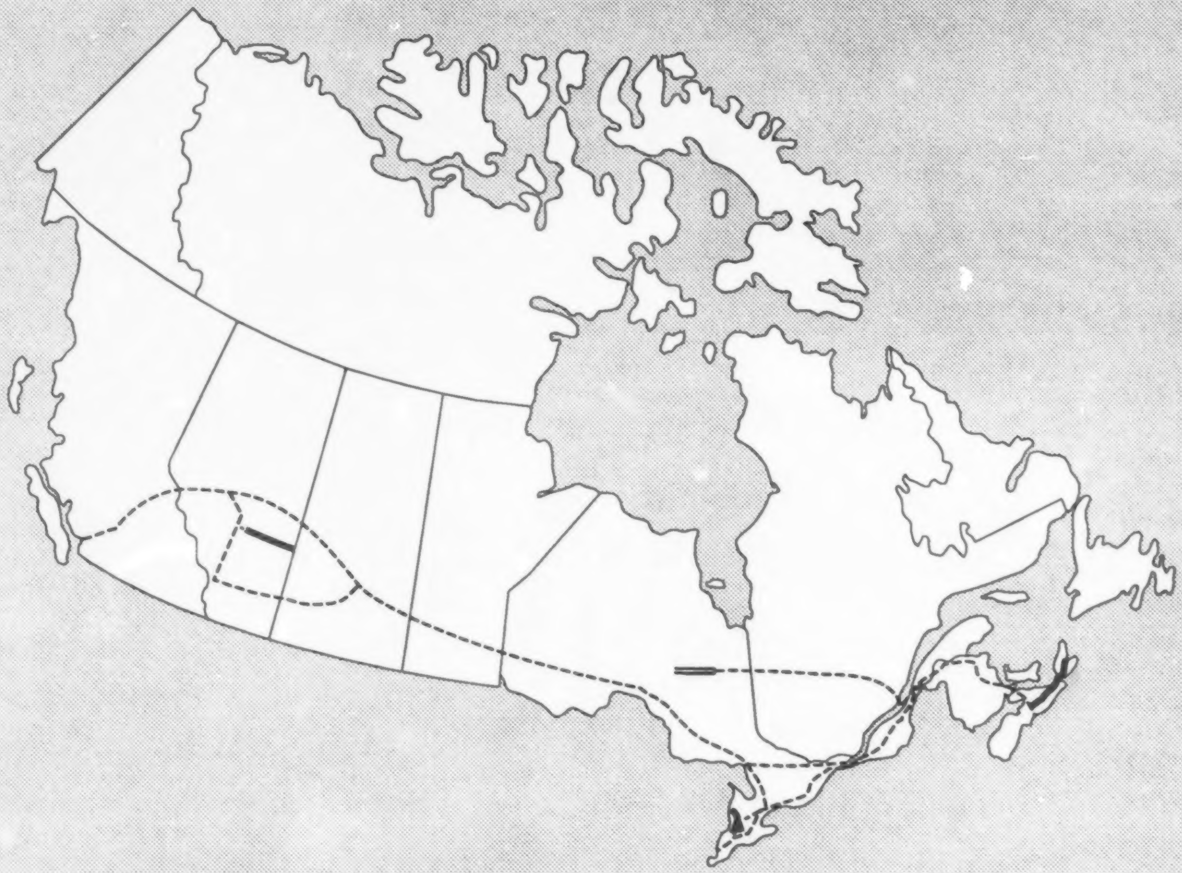
In addition to line conveyances, short-line railways are also being formed under different operating structures within Canada. Southern Rails Cooperative has been operating on both the highway and railway tracks with a power unit which is a hybrid tractor modified with retractable wheel sets. This railway has been operating on two abandoned branch lines in Saskatchewan since 1990.

FIGURE 4.1: Major Canadian Class II Railways



Legend	Railway	Location	Kilometres	Major Commodities Carried
········	BC Rail	B.C.	2,220	Coal, Forest products
━━━	Central Western	Alberta	380	Wheat
━━━	Algoma Central	Ontario	660	Iron Ore
═══	O.N.R.	Ontario	1,270	Iron Ore
━━━	Q.N.S.L.	Québec and Labrador	1,400	Iron Ore

FIGURE 4.2: Major Line Conveyances in Canada



Legend	Conveyed From	Conveyed To	Location	Kilometres
━	CP	Central Western	Alberta	210
═	CN	Ontario Northland	Northern Ontario	250
═	CN	Goderich-Exeter	Southern Ontario	110
═	CN	Proposed conveyance	Nova Scotia	400

------ Portion of Class I railways network which connects to the conveyed lines.

Operations

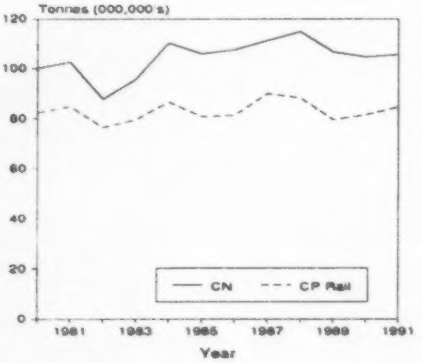
Both CN and CP Rail continue to invest heavily in intermodal transportation.

The alliance between CP Rail and Norfolk Southern is one example of the continuing expansion of intermodal services. CN and CP Rail in recent years have invested heavily in their respective intermodal infrastructures, and 1991 was no exception. Both railways opened expanded intermodal terminal facilities in 1991. CN placed an additional order for more double-stacked railcars ("five-paks") and completed an overhead clearance project to allow double-stack train services from coast to coast. Furthermore, CN recently announced a $155 million investment in a rail tunnel beneath the St. Clair river to connect Sarnia, Ontario and Port Huron, Michigan. This tunnel, expected to be completed in 1994, will primarily benefit intermodal services. It will cut 12 hours off the trip for freight that is currently barged across the St. Clair River, or moved through a smaller tunnel that cannot handle taller, modern equipment. This route handles more than a million containers annually. Additionally, the tunnel will benefit the automobile industry, which requires tri-level cars for the efficient movement of vehicles. In 1991, CP Rail announced a two-year, $15 million project to raise overhead clearances of its tunnels through the Rocky Mountains. With these clearances, CP Rail will be able to run double-stack trains between the west coast and central Canada.

In a related development, M.O.Q. Rail Inc. has been developing technology somewhat similar to the RoadRailer service operated by Norfolk Southern and CP Rail. In December 1991, CN and M.O.Q. Rail Inc. agreed to jointly test this new technology.

Another operational change in how the railways move traffic is beginning to emerge in labour relations. Like their U.S. counterparts, CN and CP Rail have successfully negotiated reductions in crew sizes for some of their rail operations. Burlington Northern was the first U.S. railway to reach such an agreement, which cut the crew size from three to two on two-thirds of the railway's southern routes. Norfolk Southern and Conrail followed with similar agreements with the United Transportation Union (UTU). In Canada, CN and the UTU signed an agreement in 1991 to reduce the crew size from three to two for non-stop freight trains in the Ontario and Quebec terminal regions. Furthermore, in January 1992, another crew reduction agreement was reached between CN and the UTU for freight and yard transfer runs throughout western Canada. CP Rail also achieved crew reductions on the RoadRailer service which was mentioned earlier.

FIGURE 4.3
Total Freight Tonnage Carried



Traffic

The Class I and II railways in Canada moved over 250 million tonnes of traffic in 1991. The majority of this traffic, namely 65 per cent, is related to the movement of ten commodities. In fact, over half of the total 1991 traffic volume moved was generated by the following five commodities, listed in order of importance: coal, iron ore and concentrates, wheat, potash and other grains. With the exception of coal, all the other top five commodities had an increase in volume in 1991 relative to 1990. The bulk of rail traffic is handled by the Class I carriers.

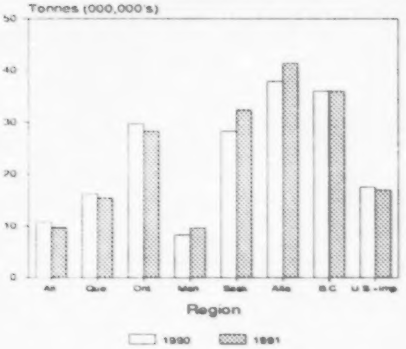
Class I Carriers

During 1991, traffic for CN and CP Rail combined increased by 2.7 per cent over the previous year.

CN's and CP Rail's traffic has followed a similar pattern since 1980. As illustrated in Figure 4.3, CN annually carried between 20 and 30 per cent more traffic than CP Rail during this period. In 1991, traffic for the two railways combined increased by 2.7 per cent. CN's tonnage increased by less than one per cent, while CP Rail increased its volume of traffic by 3.9 per cent. As with 1990, the growth in traffic for both railways is attributable to the increased volume of grain movements.

An historical regional account of the traffic flows of both railways is presented in Table 4.1. References to revenues generated from the movement of traffic by region are provided in Table 4.2 The traffic volumes of major commodities originating and terminating in each region are highlighted in Table 4.3 in a cross-sectional comparison of 1980 and 1991 traffic. Graphs are provided for each region depicting the annual change in originating traffic since 1984. These tables are provided at the end of this section.

FIGURE 4.4
CN and CP Rail Traffic
by Region of Origin

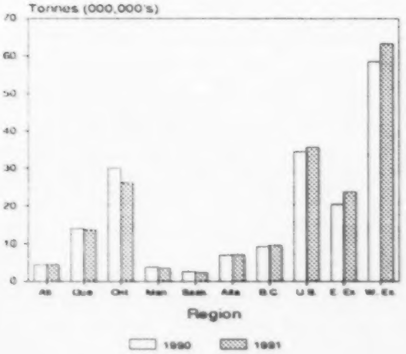


In 1991, originating tonnages increased in regions west of Ontario and decreased in regions east of Manitoba, as well as from the United States, as shown in Figure 4.4. Both railways benefitted from the continuing resurgence of grain traffic originating from Alberta, Saskatchewan and Manitoba. However, traffic from Ontario, Québec and Atlantic Canada fell in 1991 relative to 1990, as a consequence of the economic recession.

A comparison of the changes in traffic by railway in each region reveals that CN accounted for over 60 per cent of the increase in traffic originating in the three prairie provinces and virtually all the decrease in traffic originating in Ontario in 1991. CN also experienced a reduction of about one million tonnes in both Québec and Atlantic Canada. CP Rail carried the remaining 40 per cent of the increase in the Prairies, while its traffic originating in all other regions remained relatively unchanged from 1990.

Since 1988, there have been several significant shifts in regional traffic patterns for Class I carriers, almost all of which are related to grain. In 1989, Saskatchewan's originating traffic fell by over eight million tonnes, compared to decreases of 2.9 million tonnes for Alberta and two million tonnes for Manitoba. The decrease in 1989 prairie traffic was evenly distributed between CN and CP Rail. Counteracting the declines were major gains in grain traffic from Saskatchewan in 1990 and 1991, in Manitoba in 1990 and Alberta in 1991. The increases in grain traffic in 1990 and 1991 were not evenly split amongst the railways. In 1990, CP Rail accounted for two-thirds of the growth in Saskatchewan's grain traffic. In 1991, CN accounted for about 60 per cent of the growth in grain traffic from Saskatchewan and 70 per cent of the increase in Alberta's grain traffic. In 1990, Ontario had a decline in its originating traffic of four million tonnes, the second largest in terms of volume loss in the period. In fact, Ontario originating traffic has declined by over six million tonnes since 1988. Seventy per cent of the decline in Ontario originating traffic was reported by CN.

FIGURE 4.5
CN and CP Rail Traffic
by Region of Destination



When rail traffic is examined in terms of its destination, 1991 revealed substantial growth in both eastern and western exports as depicted in Figure 4.5. CP Rail accounted for over 80 per cent of the increase in eastern exports and CN accounted for two-thirds of the increase in western exports. However, 50 per cent of increases were offset by the reduction in traffic destined for Ontario. The decline in traffic destined to Ontario was experienced by both railways, with CN being somewhat more affected.

Substantial decreases in western and eastern exports totalling approximately 12 million tonnes occurred in 1989; these resulted primarily from the decline in export grain shipments. The reduction in total 1989 exports was distributed relatively evenly between the railways. CN accounted for a slightly larger drop in western exports, while CP Rail experienced more of the decline in eastern exports. Export traffic, however, rebounded in 1990 and 1991 with western exports increasing by a total of 8.5 million tonnes from 1989. Eastern exports were up 3.3 million tonnes in 1991. With these increases, the share of exports related to total traffic reached 46 per cent for the two railways in 1991. Traffic destined for the United States also increased by about two million tonnes in 1991.

Ontario bound rail traffic experienced substantial declines in 1990 and 1991 due to the recession.

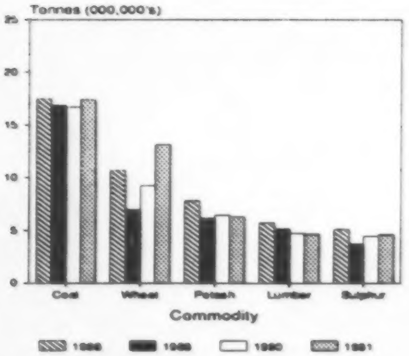
As a result of the recession, Ontario experienced declines of 4.9 million tonnes in 1990 and 3.8 million tonnes in 1991. In fact, traffic destined to Ontario has suffered a decline of 10.4 million tonnes since 1988. CN experienced the major portion of the decrease in traffic destined to Ontario since 1988, losing approximately two million tonnes more traffic than CP Rail. CP Rail's export traffic reached 50 per cent of its total terminated traffic in 1991, up from 47 per cent in 1990. In the case of CN, it's export traffic accounted for 42 per cent of its 1991 traffic, up from 39 per cent in 1990.

Coal, wheat, potash, lumber and sulphur represent over 50 per cent of total Class I rail traffic.

Changes in traffic patterns were also examined on an origin-destination basis for 1991. Shifts of a million tonnes or more of traffic were noted. The Prairie provinces experienced increases in traffic of almost nine million tonnes, due primarily to the substantial increase in grain shipments. These shipments were split evenly between eastern and western exports. In order of importance, increases were observed for the following origin-destination pairs: Saskatchewan to eastern exports, Alberta to western exports, Manitoba to eastern exports and Saskatchewan to western exports. These gains were achieved mainly by CN, while CP Rail benefitted only in the Saskatchewan to western export market.

Significant reductions occurred in two other origin-destination pairs in 1991: traffic flows within Ontario and traffic originating in Atlantic Canada and destined for eastern exports. For both of these origin-destination pairs at least a million tonnes less of rail traffic was moved in 1991 compared to 1990. CN experienced the majority of the decline in traffic moving within Ontario.

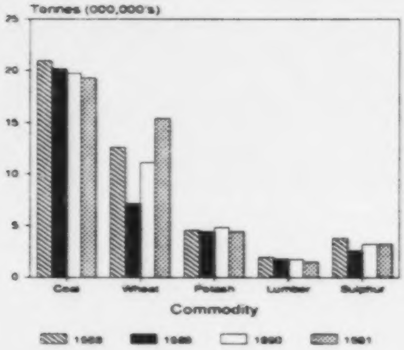
FIGURE 4.6
CN Tonnage for Selected Commodities



Movements of bulk commodities such as coal, potash, lumber, sulphur, woodpulp, pulpwood chips, gypsum and newsprint paper have increased over the years to the point where they represent 50 per cent of total traffic, excluding statutory grain shipments. Most of this bulk traffic is destined to offshore or U.S. markets. Figures 4.6 and 4.7 illustrate the traffic trends for some of the major commodities over the period 1988 to 1991 for CN and CP Rail, respectively.

- **Coal** continues to generate by far the largest volume of traffic for CN and CP Rail, representing 19 per cent of total traffic in 1991. CN recorded a four per cent increase in its coal traffic in 1991, while CP Rail experienced a decline of over two per cent.
- **Wheat** traffic increased by 41 per cent in 1991. This was a record volume year for wheat being shipped by the two railways. Of the increase in the wheat traffic in 1991, CP Rail carried 4.3 million tonnes with CN moving the remaining four million.
- **Potash** traffic decreased by five per cent in 1991, with CP Rail experiencing the larger decline, eight per cent, compared to a CN potash traffic decline of only two per cent. Potash traffic destined for the North American market dropped in 1991 as a result of weather conditions and the economy.

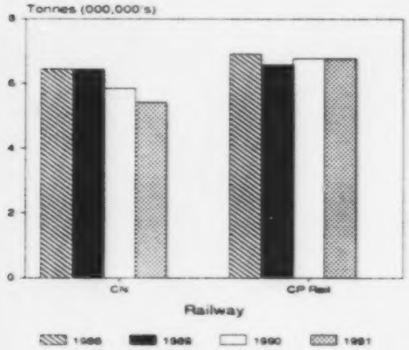
FIGURE 4.7
CP Rail Tonnage for Selected Commodities



- **Lumber** traffic declined again in 1991, a situation explained primarily by the continuing softness of the North American housing market and, to a lesser extent, by the stronger Canadian dollar. Lumber traffic overall fell by four per cent, with CP Rail being the most affected.
- **Sulphur** traffic increased by two per cent in 1991. The increase in sulphur traffic resulted from more CN shipments to the United States.

Of the remaining five commodities exceeding five million tonnes of traffic in 1991, gypsum accounted for the largest decline, with a one million tonne reduction in eastern exports. Newsprint paper and pulpwood chips each experienced a decrease of 200,000 tonnes in 1991. The reduction in newsprint paper shipments occurred in traffic destined to the U.S. as a result of reduced demand and new policies within the United States to recycle more paper. This decline followed reductions of newprint paper in 1989 and 1990 traffic destined to the U.S. totalling over half a million tonnes. The drop in 1991 pulpwood chips traffic occurred in shipments destined to Québec. Pulpwood chips traffic declined by 1.4 million tonnes since 1988, with the decreases occurring in traffic destined to British Columbia and Québec.

FIGURE 4.8
CN and CP Rail Intermodal Traffic

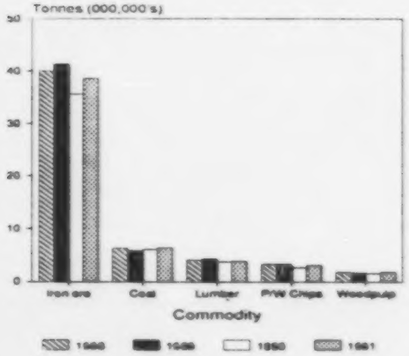


Limestone traffic declined by over 700,000 tonnes in 1991, with three-quarters of the decrease occurring in shipments destined to Ontario. Since 1988, limestone traffic dropped 1.7 million tonnes. There was a 600,000 tonne reduction in iron ore and concentrates traffic destined to Ontario. The traffic decline for this commodity went from 2.2 million tonnes in 1989 to less than 20,000 tonnes in 1991.

Many commodities move on rail intermodal services and as a result this type of traffic accounts for a significant proportion of CN's and CP Rail's tonnage and revenues. In terms of tonnage, it generated the third largest volume of traffic for the railways. The railways have made important investments in recent years to modernize their intermodal services. In 1991, however, intermodal traffic declined 3.4 per cent, with CN accounting for all the decline. The drop in CN 1991 intermodal traffic resulted from a reduction in its container-on-flat-car traffic. Figure 4.8 illustrates the four year trend of intermodal traffic for each railway. In terms of intermodal traffic by origin, the United States accounted for the largest increase in 1991, followed by British Columbia and eastern imports. From a destination point of view, a sizable reduction in intermodal traffic did occur in eastern export tonnages in 1991.

Class II Carriers

FIGURE 4.9
Class II Tonnage for Selected Commodities



While Class II railways account for less than ten per cent of the total railway freight revenues, they do account for about one-fourth of the total rail traffic originating in Canada. The difference in the percentages is due to the shorter average haul over which the Class II carriers move traffic, therefore generating less revenues per tonne of traffic moved than Class I railways.

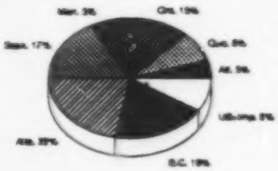
In 1991, total traffic for the Class II railways increased by 1.7 million tonnes, which is a recovery of about one-third of the decline experienced in 1990. As with Class I railways, the majority of the traffic moved by Class II carriers is comprised of a few high volume commodities. In fact, iron ore and concentrates, which is second only to coal in terms of traffic moved by all railways in Canada, accounted for more than half the total volume of traffic originating on Class II railways in 1991. Figure 4.9 illustrates iron ore and concentrates movements for 1988 to 1991, along with the next four highest volume commodities, namely: coal, lumber, pulpwood chips and woodpulp. These five commodities accounted for 73 per cent of the 1991 traffic volume transported by the Class II carriers. Following a decline of 12 per cent in 1990, each of the five commodities showed an increase in 1991.

TABLE 4.1

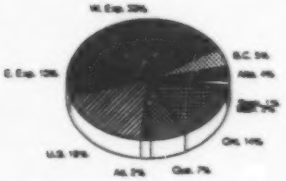
RAIL TRAFFIC - A REGIONAL AND HISTORICAL PERSPECTIVE

Information on the volume and types of traffic originated and terminated in each of Canada's regions by the two major railways - CN and CP Rail - is presented in the following table which shows shifts in traffic patterns and market share over the period 1980-1991.

Regional Originating Traffic in 1991
(Tonnes)



Regional Terminating Traffic in 1991
(Tonnes)



TRAFFIC VOLUME (Millions of tonnes)								
	1980	1982	1984	1986	1988	1989	1990	1991
Traffic Volume	181.5	163.2	195.1	182.9	200.4	183.5	184.4	189.3
ORIGINATED TRAFFIC (% by region)								
Atlantic	5	5	5	6	6	6	6	5
Québec	10	9	9	9	8	9	9	8
Ontario	25	20	20	20	17	18	16	15
Manitoba	5	5	5	5	4	3	4	5
Saskatchewan	16	17	16	13	16	13	15	17
Alberta	19	21	19	19	20	21	21	22
British Columbia	13	15	18	19	19	20	19	19
Imports: E. Ports	1	1	1	1	1	1	1	1
Imports: W. Ports	1	1	1	1	1	1	1	1
Imports: U.S.	5	6	6	6	6	7	7	7
TERMINATED TRAFFIC (% by region)								
Atlantic	3	3	3	3	2	2	2	2
Québec	9	8	8	8	8	8	8	7
Ontario	19	17	20	20	18	19	16	14
Manitoba	3	2	2	2	2	2	2	2
Saskatchewan	2	1	1	1	1	1	1	1
Alberta	6	5	4	4	3	4	4	4
British Columbia	8	7	8	6	6	5	5	5
Exports: E. Ports	14	17	14	12	12	10	11	13
Exports: W. Ports	19	22	24	28	31	30	32	33
Exports: U.S.	17	17	16	16	17	18	19	19

TABLE 4.1 (continued)

In 1980, the two railways carried a total of 181.5 million tonnes of traffic, with CN handling 55 per cent. In 1991, traffic volumes reached 189.3 million tonnes, 56 per cent of which was moved by CN.

Traffic increased by only 4.3 per cent from 1980 to 1991; however, traffic patterns have shifted significantly over this period. While there have been major gains in British Columbia, Alberta and U.S. originating traffic this growth has been offset by declines in Ontario and Québec. There has been an 81 per cent growth in western exports over this period, offset somewhat by a 25 per cent decline in Ontario terminating traffic.

Comparing 1991 to 1980, ...

... CN's market share increased in the Atlantic region, Québec, Alberta and B.C., as well as for U.S. originating traffic,

... and

... CP Rail's market share increased in Ontario, Manitoba, Saskatchewan and from eastern and western imports.

CN/CP MARKET SHARE OF ORIGINATED TRAFFIC BY REGION

(Millions of tonnes)

	1980	1982	1984	1986	1988	1989	1990	1991
Atlantic	10.0	8.2	10.1	10.9	11.3	11.0	10.7	9.6
CN	77%	78%	79%	81%	83%	82%	84%	83%
CP Rail	23%	22%	21%	19%	17%	18%	16%	17%
Québec	17.6	15.2	17.1	16.6	16.8	15.7	16.2	15.4
CN	71%	73%	74%	75%	77%	78%	80%	78%
CP Rail	29%	27%	26%	25%	23%	22%	20%	22%
Ontario	44.8	32.2	38.4	36.0	34.3	33.6	29.7	28.2
CN	58%	59%	54%	56%	56%	58%	55%	53%
CP Rail	42%	41%	46%	44%	44%	42%	45%	47%
Manitoba	9.4	8.4	9.0	9.9	8.4	6.4	8.2	9.5
CN	60%	54%	54%	53%	55%	56%	54%	53%
CP Rail	40%	46%	46%	47%	45%	44%	46%	47%
Sask.	29.5	28.1	32.2	23.6	32.6	24.4	28.2	32.3
CN	54%	46%	50%	52%	50%	50%	48%	49%
CP Rail	46%	54%	50%	48%	50%	50%	52%	51%
Alberta	33.9	33.8	36.6	34.0	40.8	37.9	37.9	41.4
CN	60%	58%	65%	66%	65%	67%	66%	66%
CP Rail	40%	42%	35%	34%	35%	33%	34%	34%
B.C.	24.2	24.4	35.8	35.6	38.5	36.9	36.0	36.0
CN	31%	31%	40%	44%	39%	37%	38%	38%
CP Rail	69%	69%	60%	56%	61%	63%	62%	62%
Imports								
E. Ports	1.7	1.8	2.8	2.7	2.8	2.6	2.3	2.0
CN	69%	49%	61%	47%	52%	56%	55%	52%
CP Rail	31%	51%	39%	53%	48%	44%	45%	48%
W. Ports	1.2	1.0	1.4	1.8	2.4	2.4	2.2	2.2
CN	83%	78%	84%	58%	54%	57%	52%	45%
CP Rail	17%	22%	16%	42%	46%	43%	48%	55%
U.S.	8.9	9.9	11.2	11.5	12.1	12.1	13.0	12.8
CN	20%	46%	49%	44%	52%	53%	52%	49%
CP Rail	80%	54%	51%	56%	48%	47%	48%	51%

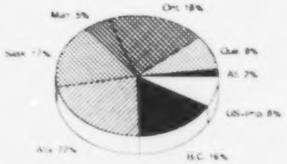
TABLE 4.2

TOTAL OPERATING REVENUES - A REGIONAL AND HISTORICAL PERSPECTIVE

Information on CN and CP Rail operating revenues are presented in the following table. Revenues are broken down according to the region from which the traffic originated and terminated.

TOTAL OPERATING REVENUES (Millions of $)						
	1984	**1986**	**1988**	**1989**	**1990**	**1991**
Total Revenues	**5,604**	**5,771**	**6,124**	**5,595**	**5,639**	**5,688**
OPERATING REVENUE BY ORIGINATING REGION (% by region)						
Atlantic	3	3	3	2	2	2
Québec	10	10	10	10	10	9
Ontario	21	21	20	21	20	19
Manitoba	4	5	4	4	5	5
Saskatchewan	15	15	16	13	16	17
Alberta	20	19	20	21	20	22
British Columbia	19	19	18	18	17	16
Imports: Eastern Ports	2	2	2	2	2	1
Imports: Western Ports	1	2	3	3	3	3
Imports: United States	5	5	5	5	5	4
OPERATING REVENUE BY TERMINATING REGION (% by region)						
Atlantic	5	5	4	4	4	4
Québec	10	11	10	10	9	9
Ontario	17	17	17	18	15	14
Manitoba	4	4	3	3	3	3
Saskatchewan	2	2	2	2	2	2
Alberta	7	7	7	7	7	7
British Columbia	9	8	8	9	8	8
Exports: Eastern Ports	9	9	7	6	7	8
Exports: Western Ports	20	22	25	24	27	28
Exports: United States	17	15	16	17	17	17

Regional Originating Traffic in 1991
(Revenues)



Regional Terminating Traffic in 1991
(Revenues)

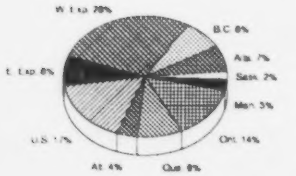


TABLE 4.2 (continued)

In 1984, the two railways' freight operations generated a total of $5.6 billion of revenues, with CN capturing a 58 per cent share. In 1991, total revenues reached $5.7 billion, with CN maintaining its 58 per cent share. Total revenues increased by 1.5 per cent from 1984 to 1991. Saskatchewan and Alberta accounted for the major revenue increases over this period, while major declines in revenues were observed for British Columbia and Ontario.

Comparing 1991 to 1984, ...

... CN's share of revenues increased in the Atlantic region, Québec, Saskatchewan, Alberta and from eastern imports,

... and

... CP Rail's share of revenues increased in Ontario, Manitoba, British Columbia, U.S., as well as from western imports.

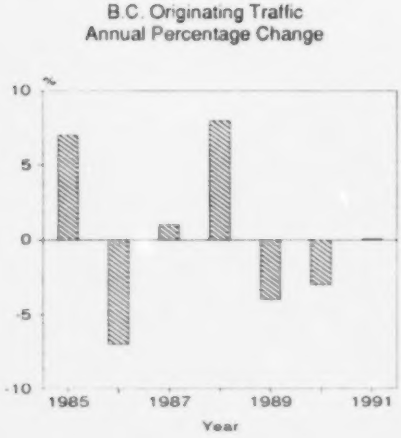
CN/CP SHARE OF OPERATING REVENUES BY ORIGINATING REGION

(Millions of $)

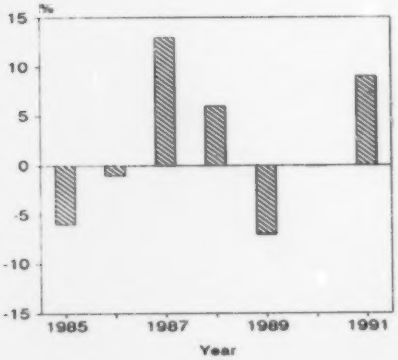
	1984	1986	1988	1989	1990	1991
Atlantic	145	160	170	137	140	134
CN	86%	88%	93%	92%	89%	91%
CP Rail	14%	12%	7%	8%	11%	9%
Québec	545	556	592	582	575	535
CN	70%	71%	71%	71%	73%	73%
CP Rail	30%	29%	29%	29%	27%	27%
Ontario	1,189	1,219	1,208	1,185	1,114	1,097
CN	57%	57%	57%	58%	57%	56%
CP Rail	43%	43%	43%	42%	43%	44%
Manitoba	234	287	249	209	257	289
CN	58%	57%	59%	58%	55%	55%
CP Rail	42%	43%	41%	42%	45%	45%
Saskatchewan	846	851	975	742	905	994
CN	52%	52%	54%	53%	48%	53%
CP Rail	48%	48%	46%	47%	52%	47%
Alberta	1,118	1,088	1,247	1,153	1,156	1,203
CN	65%	66%	65%	67%	65%	66%
CP Rail	35%	34%	35%	33%	35%	34%
British Columbia	1,051	1,082	1,097	1,022	954	926
CN	47%	48%	47%	46%	44%	46%
CP Rail	53%	52%	53%	54%	56%	54%
Imports						
Eastern Ports	97	96	102	103	100	79
CN	71%	67%	74%	76%	77%	73%
CP Rail	29%	33%	26%	24%	23%	27%
Western Ports	82	140	163	152	154	153
CN	61%	47%	39%	40%	35%	31%
CP Rail	39%	53%	61%	60%	65%	69%
United States	273	266	291	278	275	251
CN	51%	45%	52%	52%	49%	49%
CP Rail	49%	55%	48%	48%	51%	51%

TABLE 4.3

TRAFFIC FLOWS BY REGION


B.C. Originating Traffic
Annual Percentage Change

TRAFFIC FLOWS BY REGION	
BRITISH COLUMBIA	
Originated Traffic (Tonnage) - Key Commodity Shares	
1980 - 24.2 million tonnes ● coal 39%; 93% exported through west coast ports ● lumber 14%; 66% went to the U.S. pulpwood chips 15%; moved mainly (86%) within B.C.	**1991 - 36.0 million tonnes** ● coal 68%; 94% exported through west coast ports ● lumber 11%; 74% went to the U.S. ● pulpwood chips 7%; moved mainly (82%) within B.C.
1980-1991 Trend ● overall traffic up 49% ● coal up 156% ● lumber up 17% ● pulpwood chips down 34%	**1988-1991 Trend** ● overall traffic down 7% ● coal remained constant ● lumber down 20% ● pulpwood chips down 25%
Terminated Traffic (Tonnage) - Key Commodity Shares	
1980 - 13.7 million tonnes ● pulpwood chips 23% ● inorganic bases (anhydrous ammonia and caustic soda) 3%	**1991 - 9.5 million tonnes** ● pulpwood chips 21% ● inorganic bases (anhydrous ammonia and caustic soda) 8%
Originated Traffic (Revenues) - Key Commodities	
1984 - $1,051 million ● coal ● lumber ● woodpulp ● pulpwood chips	**1991 - $926 million** ● coal ● lumber ● woodpulp ● pulpwood chips
1984-1991 Trend ● overall revenues down 12%	**1988-1991 Trend** ● overall revenues down 16%



Alberta Originating Traffic
Annual Percentage Change

TABLE 4.3 (continued)

TRAFFIC FLOWS BY REGION	
ALBERTA	
Originated Traffic (Tonnage) - Key Commodity Shares	
1980 - 33.9 million tonnes • coal 21%; 63% exported through west coast ports and 23% shipped to Ontario • wheat 12%; 89% exported, mainly through west coast ports • sulphur 22%; 70% exported offshore	**1991 - 41.4 million tonnes** • coal 23%; 83% exported through west coast ports and 17% shipped to Ontario • wheat 15%; 94% exported, mainly through west coast ports • sulphur 14%; 77% exported offshore
1980-1991 Trend • overall traffic up 22% • coal up 33% • wheat up 49% • sulphur down 21%	**1988-1991 Trend** • overall traffic up 1% • coal up 6% • wheat up 11% • sulphur down 18%
Terminated Traffic (Tonnage) - Key Commodity Shares	
1980 - 10.2 million tonnes • phosphate rock 16% • crushed limestone 8%	**1991 - 7.0 million tonnes** • phosphate rock 12% • crushed limestone 8%
Originated Traffic (Revenues) - Key Commodities	
1984 - $1,118 million • sulphur • coal • wheat • barley • inorganic bases	**1991 - $1,230 million** • coal • wheat • sulphur • woodpulp • barley
1984-1991 Trend • overall revenues up 10%	**1988-1991 Trend** • overall revenues down 1%

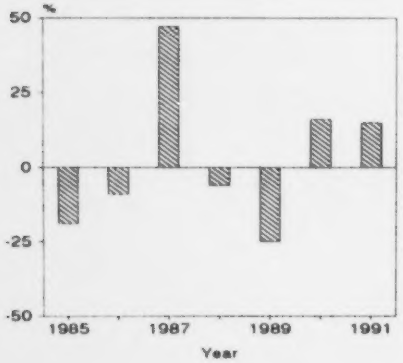

Saskatchewan Originating Traffic
Annual Percentage Change

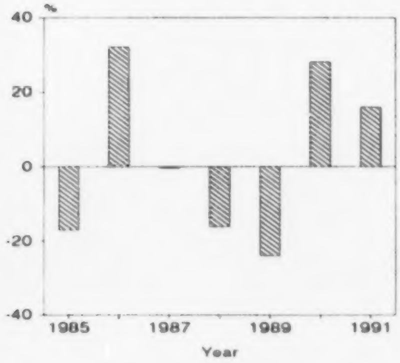
TABLE 4.3 (continued)

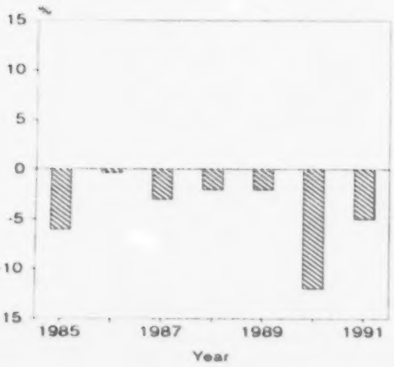
TRAFFIC FLOWS BY REGION	
SASKATCHEWAN	
Originated Traffic (Tonnage) - Key Commodity Shares	
1980 - 29.5 million tonnes • wheat 44%; 25% exported through west coast ports and 75% exported through ports in eastern Canada • potash 37%; 33% exported through west coast ports and 56% exported to the U.S. • coal 2%; mostly shipped to Manitoba	**1991 - 32.3 million tonnes** • wheat 48%; 48% exported through west coast ports; 52% exported through ports in eastern Canada • potash 28%; 38% exported through west coast ports and 43% exported to the U.S. • coal 4%; mostly shipped to Ontario
1980-1991 Trend • overall traffic up 10% • wheat up 20% • potash down 18% • coal up 140%	**1988-1991 Trend** • overall originating traffic down 1% • wheat up 18% • potash down 16% • coal down 60%
Terminated Traffic (Tonnage) - Key Commodity Shares	
1980 - 2.8 million tonnes • iron and steel 5%	**1991 - 2.2 million tonnes** • iron and steel 21%
Originated Traffic (Revenues) - Key Commodities	
1984 - $845 million • wheat • potash • barley • coal • rapeseed	**1991 - $994 million** • wheat • potash • barley • rapeseed • coal
1984-1991 Trend • overall revenues up 18%	**1988-1991 Trend** • overall revenues up 2%

TABLE 4.3 (continued)

TRAFFIC FLOWS BY REGION	
MANITOBA	
Originated Traffic (Tonnage) - Key Commodity Shares	
1980 - 9.4 million tonnes • wheat 28%; 96% exported, mainly through ports in eastern Canada • barley 6%; 78% exported mainly through ports in eastern Canada • rapeseed 3%; 54% exported through east coast ports; 46% exported through west coast ports	**1991 - 9.5 million tonnes** • wheat 54%; 95% exported, mainly through ports in eastern Canada • barley 8%; 84% exported mainly through ports in western Canada • rapeseed 5%; 52% exported through east coast ports; 48% exported through west coast ports
1980-1991 Trend • overall traffic up 1% • wheat up 92% • barley up 36% • rapeseed up 40%	**1988-1991 Trend** • overall traffic up 14% • wheat up 54% • barley up 59% • rapeseed up 35%
Terminated Traffic (Tonnage) - Key Commodity Shares	
1980 - 5.5 million tonnes • coal 8%	**1991 - 3.5 million tonnes** • coal 10%
Originated Traffic (Revenues) - Key Commodities	
1984 - $234 million • wheat • barley • rapeseed	**1991 - $289 million** • wheat • barley • rapeseed
1984-1991 Trend • overall revenues up 23%	**1988-1991 Trend** • overall revenues up 16%

Manitoba Originating Traffic
Annual Percentage Change





Ontario Originating Traffic
Annual Percentage Change

TABLE 4.3 (continued)

TRAFFIC FLOWS BY REGION	
ONTARIO	
Originated Traffic (Tonnage) - Key Commodity Shares	
1980 - 44.8 million tonnes ● wide distribution of commodities each originating over 500,000 tonnes ● nickel-copper ores 12% ● woodpulp 3% ● refined and manufactured gases 2% ● 78% of traffic shipped to points within Canada, with 64% of the total destined to Ontario ● a further 15% of Ontario traffic was exported by rail to the U.S.	**1991 - 28.2 million tonnes** ● wide distribution of commodities each originating over 500,000 tonnes ● nickel-copper ores 12% ● woodpulp 5% ● refined and manufactured gases 5% ● 65% of traffic shipped to points within Canada, with 52% of the total destined to Ontario ● a further 26% of Ontario traffic was exported by rail to the U.S.
1980-1991 Trend ● overall traffic down 37%, with significant declines in iron ore, nickel-copper ores, limestone, diesel fuel and pulpwood logs ● nickel-copper ores down 40% ● woodpulp up 1% ● refined and manufactured gases up 29%	**1988-1991 Trend** ● overall traffic down 18%, with significant declines in iron ore, nickel-copper ores, limestone, diesel fuel and pulpwood logs ● nickel-copper ores down 9% ● woodpulp down 2% ● refined and manufactured gases up 14%
Terminated Traffic (Tonnage) - Key Commodity Shares	
1980 - 35.0 million tonnes ● thirteen commodities each terminated over 500,000 tonnes ● nickel-copper ores 16% ● coal 7%	**1991 - 26.2 million tonnes** ● ten commodities each terminated over 500,000 tonnes ● nickel-copper ores 13% ● coal 13%
Originated Traffic (Revenues) - Key Commodities	
1984 - $1,189 million ● container traffic ● road motor vehicles ● automobiles	**1991 - $1,097 million** ● road motor vehicles ● container traffic ● automobiles
1984-1991 Trend ● overall revenues down 8%	**1988-1991 Trend** ● overall revenues down 9%

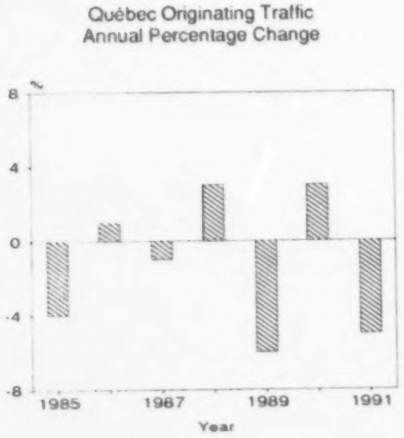


TABLE 4.3 (continued)

TRAFFIC FLOWS BY REGION	
QUÉBEC	
Originated Traffic (Tonnage) - Key Commodity Shares	
1980 - 17.6 million tonnes • six commodities originated over 500,000 tonnes • newsprint 13% • pulpwood chips 10% • 68% originated traffic was shipped to points in Canada • an additional 25% was exported by rail to the U.S.	**1991 - 15.4 million tonnes** • seven commodities originated over 500,00 tonnes • newsprint paper 15% • pulpwood chips 7% • 50% of originated traffic was shipped to points in Canada • an additional 44% was exported by rail to the U.S.
1980-1991 Trend • overall traffic down 13% • newsprint paper up 2% • pulpwood chips down 45%	**1988-1991 Trend** • overall traffic down 9% • newsprint paper down 11% • pulpwood chips down 39%
Terminated Traffic (Tonnage) - Key Commodity Shares	
1980 - 16.6 million tonnes • five commodities each terminated over 500,000 tonnes • pulpwood chips 11% • common salt 3%	**1991 - 13.8 million tonnes** • five commodities each terminated over 500,000 tonnes • pulpwood chips 7% • common salt 5%
Originated Traffic (Revenues) - Key Commodities	
1984 - $545 million • newsprint paper • container traffic • pulpwood chips • lumber	**1991 - $535 million** • newsprint paper • container traffic • woodpulp • aluminum
1984-1991 Trend • overall revenues down 2%	**1988-1991 Trend** • overall revenues down 10%

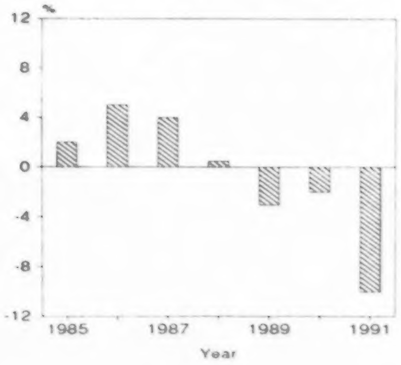

Atlantic Originating Traffic
Annual Percentage Change

TABLE 4.3 (continued)

TRAFFIC FLOWS BY REGION	
ATLANTIC CANADA	
Originated Traffic (Tonnage) - Key Commodity Shares	
1980 - 10.0 million tonnes ● gypsum 41%; exported through Atlantic ports ● no potash in 1980 ● coal 6%; originated and terminated in Nova Scotia ● woodpulp 6%; 67% exported to the U.S.	**1991 - 9.6 million tonnes** ● gypsum 42%; exported through Atlantic ports ● potash 18%; also exported through Atlantic ports ● coal 10%; originated and terminated in Nova Scotia ● woodpulp 3%; 58% exported to the U.S.
1980-1991 Trend ● overall traffic down 3% ● gypsum down 2% ● coal up 45% ● woodpulp down 46%	**1988-1991 Trend** ● overall traffic down 15% ● gypsum down 21% ● potash up 5% ● coal up 21% ● woodpulp down 33%
Terminated Traffic (Tonnage) - Key Commodity Shares	
1980 - 6.1 million tonnes ● coal 10%	**1991 - 4.4 million tonnes** ● coal 21%
Originated Traffic (Revenues) - Key Commodities	
1984 - $145 million ● woodpulp ● newsprint paper ● coal ● gypsum	**1991 - $134 million** ● potash ● coal ● woodpulp ● gypsum
1984-1991 Trend ● overall revenues down 8%	**1988-1991 Trend** ● overall revenues down 21%

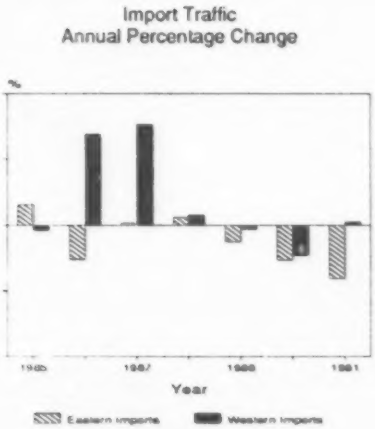


TABLE 4.3 (continued)

TRAFFIC FLOWS BY REGION	
EASTERN AND WESTERN IMPORTS (Tonnage) - Key Commodity Shares	
1980 Eastern Imports 1.7 million tonnes • 81% of traffic was destined to Ontario and Québec • container traffic 75% Western Imports 1.2 million tonnes • 50% of traffic, with the exception of phosphate rock, was destined to Ontario and Québec • container traffic 17% • phosphate rock 67%	**1991** Eastern Imports 2.0 million tonnes • 80% of the traffic was destined to Ontario and Québec • container traffic 94% Western Imports 2.2 million tonnes • 76% of traffic, with the exception of phosphate rock, was destined to Ontario and Québec • container traffic 49% • phosphate rock 44%
1980-1991 Trend Eastern Imports • overall traffic up 18% Western Imports • overall traffic up 82%	**1988-1991 Trend** Eastern Imports • overall traffic down 29% Western Imports • overall traffic down 10%
EASTERN AND WESTERN IMPORTS (Revenues) - Key Commodities	
1984 Eastern Imports $97 million • container traffic • automobiles Western Imports $82 million • container traffic • automobiles • phosphate rock	**1991** Eastern Imports $79 million • container traffic • automobiles Western Imports $153 million • automobiles • container traffic • phosphate rock
1984-1991 Trend Eastern Imports • overall revenues down 18% Western Imports • overall revenues up 87%	**1988-1991 Trend** Eastern Imports • overall revenues down 22% Western Imports • overall revenues down 6%

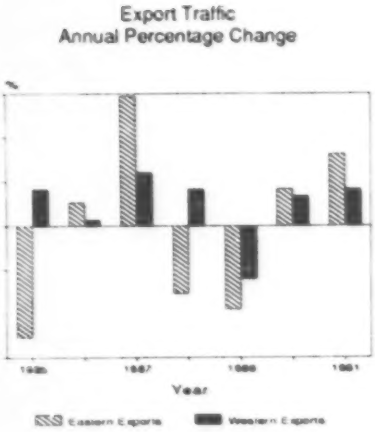


TABLE 4.3 (continued)

TRAFFIC FLOWS BY REGION	
EASTERN AND WESTERN EXPORTS (Tonnage) - Key Commodity Shares	
1980 Eastern Ports 25.5 million tonnes • wheat 54% • gypsum 16% • potash 1% Western Ports 35.0 million tonnes • coal 39% • wheat 18% • sulphur 15%	**1991** Eastern Ports 23.7 million tonnes • wheat 57% • gypsum 17% • potash 8% Western Ports 63.3 million tonnes • coal 49% • wheat 21% • sulphur 7%
1980-1991 Trend Eastern Ports • overall traffic down 7% Western Ports • overall traffic up 81%	**1988-1991 Trend** Eastern Ports • overall traffic up 2% Western Ports • overall traffic up 2%
EASTERN AND WESTERN EXPORTS (Revenues) - Key Commodities	
1984 Eastern Ports $489 million • wheat • barley • container traffic Western Ports $1,119 million • coal • wheat • sulphur • potash • barley	**1991** Eastern Ports $475 million • wheat • barley • container traffic Western Ports $1,618 million • coal • wheat • sulphur • barley • potash
1984-1991 Trend Eastern Ports • overall revenues down 3% Western Ports • overall revenues up 45%	**1988-1991 Trend** Eastern Ports • overall revenues up 9% Western Ports • overall revenues up 5%

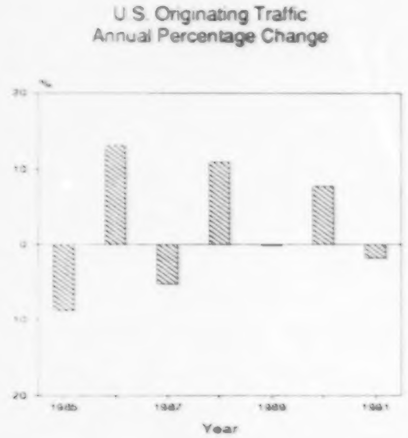


TABLE 4.3 (continued)

TRAFFIC FLOWS BY REGION	
UNITED STATES	
Originated Traffic (Tonnage) - Key Commodity Shares	
1980 - 8.9 million tonnes • 37% of traffic was destined to Ontario and Québec and 32% was re-exported to the U.S. by rail • container traffic 5% • groundwood printing and specialty paper 7% • motor vehicle engines 9%	**1991 - 12.8 million tonnes** • 48% of traffic was destined to Ontario and Québec and 29% was re-exported to the U.S. by rail • container traffic 12% • groundwood printing and specialty paper 6% • motor vehicle engines 3%
1980-1991 Trend • overall traffic up 43%	**1988-1991 Trend** • overall traffic up 6%
Terminated Traffic (Tonnage) - Key Commodity Shares	
1980 - 30.8 million tonnes • lumber 9% • potash 20% • newsprint paper 11%	**1991 35.6 million tonnes** • lumber 12% • potash 11% • newsprint paper 9%
1980-1991 Trend • overall traffic up 16%	**1988-1991 Trend** • overall traffic up 7%
Originated Traffic (Revenues) - Key Commodities	
1984 - $273 million • motor vehicle engines • groundwood printing and specialty paper • container traffic	**1991 - $251 million** • container traffic • motor vehicle engines • groundwood printing and specialty paper
1984-1991 Trend • overall revenues down 8%	**1988-1991 Trend** • overall revenues down 14%
Terminated Traffic (Revenues) - Key Commodities	
1984 - $942 million • lumber • newsprint paper • woodpulp • potash • sulphur	**1991 - $972 million** • lumber • woodpulp • newsprint paper • sulphur • potash
1984-1991 Trend • overall revenues up 3%	**1988-1991 Trend** • overall revenues down 3%

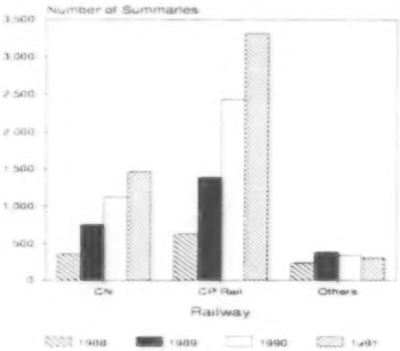
Competition

Confidential Contracts

The use of confidential contracts increased significantly once again in 1991, as they continued to be popular with both shippers and railways.

Contract Filings

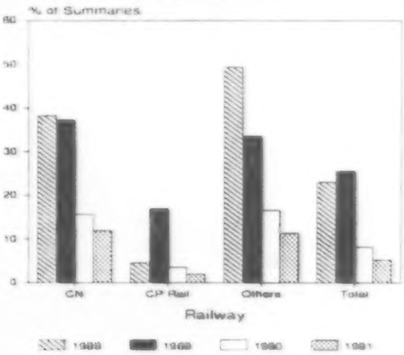
FIGURE 4.10
Number of Confidential Contract Summaries



New contracts filed with the Agency were up by 30 per cent from 1990, with 5,086 contracts signed during the year. Of that number, CP Rail filed over 3,300 contract summaries, CN slightly under 1,500 and the remaining contracts were filed by the following carriers: Algoma Central, Burlington Northern, Consolidated Rail Corporation, CSX Transportation, Norfolk Southern (consisting of Norfolk and Western, and Southern Railway Company) and Wisconsin Central. These other carriers experienced a decline of nine per cent in contract filings in 1991, while the number of contracts filed by CP Rail grew by 36 per cent and by 30 per cent for CN. (Figure 4.10).

The number of confidential contracts filed yearly in Canada has grown at an annual rate of 61 per cent since 1988, the first year rail contracts became lawful. CP Rail has continued annually to increase its share of new contract filings, from slightly over 50 per cent in 1988 to 65 per cent in 1991. With CN's share remaining constant at around 30 per cent for all four years, the other carriers' share has fallen from 19 per cent in 1988 to only six per cent in 1991.

FIGURE 4.11
Confidential Contract Summaries with Evergreen Clause

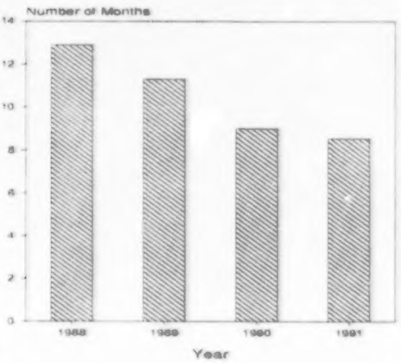


There was a further drop in the number of evergreen contracts in 1991 (i.e. contracts whose terms and conditions are automatically renewed beyond the nominal expiry date unless either party to the contract notifies the other). In 1991, only five per cent of all new contracts filed were evergreen, compared to eight per cent in 1990. These percentages are down significantly from 23 and 26 per cent experienced in 1988 and 1989, respectively. Virtually all railways filing contracts in 1991 had fewer evergreen clauses compared to those filed in 1990. The lower number of evergreens in 1990 and 1991 is partly explained by the responses to the shippers survey. Survey results showed that over three-quarters of the contracts which were renegotiated included changes to the original contracts, indicating an interest among shippers in not being bound by previous terms and conditions. Figure 4.11 illustrates that CN had the majority of evergreen contracts in 1990 and 1991. Even with the declining number of evergreens since 1988, CN still had such clauses in 12 per cent of its new 1991 contracts. CP Rail, on the other hand, had only two per cent of its 1991 contract filings with evergreen clauses.

Contract Durations

Those contracts which do not have automatic renewal clauses (i.e. evergreens) were analyzed for their length of duration. In 1991, the average contract length of new contracts fell slightly to 8.5 months from 9.0 months in 1990. When the length of amended 1990 contracts is also considered, the average duration becomes 11 months, an indication that amendments to contracts filed have been dealing, among other things, with the extension of the duration of the agreement. This was the third consecutive annual reduction in duration as shown in Figure 4.12. This trend towards shorter term contracts since 1988 might be the result of the demanding environment under which business was conducted. In such difficult times, there has been some hesitation on the part of both carriers and shippers to enter into long-term commitments. In 1988, 77 per cent of all new contract summaries were signed for a period of one year or less. This share grew to 87 per cent in 1991. Further evidence of the reduction in contract length is shown by examining the number of contracts signed for six months or less. Over half of all new contracts signed in 1991 were for a period of six months or less, compared to one in four contracts in 1988.

FIGURE 4.12
Average Duration of Confidential Contracts



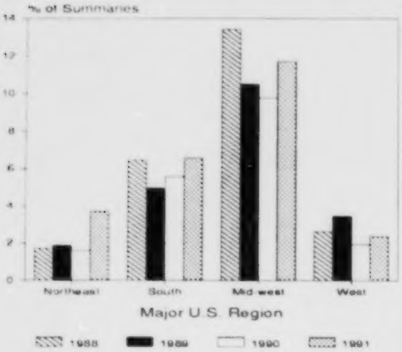
Since 1988, there has been a trend towards shorter term contracts, perhaps reflecting harsher economic times.

Both CN's and CP Rail's average contract lengths have declined since 1988, except for a minor increase in CN's average duration in 1991. These decreases can be explained by the trend in contracts signed with a duration of six months or less. CN and CP Rail both experienced a growth in the share of their respective contracts signed for a period of one year or less. However, two-thirds of CP Rail contracts within this category were for a period of six months or less, compared to slightly over 40 per cent for CN. In fact, the slight upturn in CN's average duration in 1991 is explained by a shift from contracts of six months or less to one year contracts. CN's one year contracts more than doubled in 1991 relative to 1990, representing 37 per cent of all its new contracts filed. This is in comparison to 22 per cent in 1990. CN has consistently had a longer average contract length than CP Rail. The trend of the other carriers has moved in the opposite direction to that of CN and CP Rail. While the majority of their contracts were also signed for a period of one year or less, their percentage of contracts signed for periods exceeding one year grew from six per cent in 1988 to 18 per cent in 1990 and then fell to 11 per cent in 1991. It is worth noting that for all railways, in total, there was, on average, less than five per cent of 1991 contracts signed for a period exceeding two years.

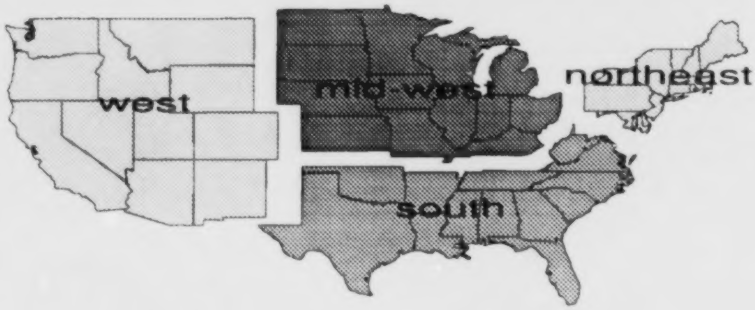
Confidential Contracts by Region

In terms of origins reported in confidential contract summaries, the regional distribution observed in 1991 revealed a gradual shift to a higher percentage of contracts with U.S origins. Conversely, the percentage of contracts with Canadian origins fell from over 80 per cent in 1990 to 77 per cent of new contracts in 1991. Each region of Canada, with the exception of Manitoba and Québec, experienced a reduced share of contracts in 1991 relative to 1990. The percentage of contracts listing Québec as an origin has grown each year, from 13 per cent in 1988 to 17 per cent in 1991. Despite the growth in Québec's share and the reduction in the percentage of contracts with Ontario as an origin, Ontario still had the largest share of contracts at 28 per cent in 1991. To better understand U.S. originating rail traffic moving under confidential contracts, the U.S. has been divided into four broad regions as illustrated in the following map.

FIGURE 4.13
U.S. Origins Listed in Contract Summaries

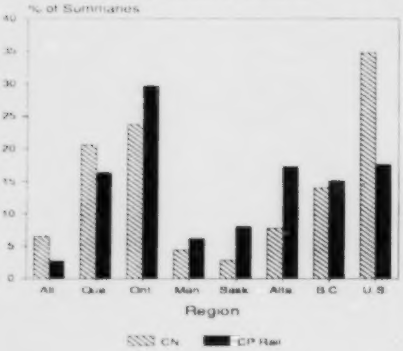


Major U.S. Regions



The increased share in contracts with U.S. origins has occurred in all four U.S. regions, as shown in Figure 4.13. The mid-west and south regions accounted for the majority of origins.

FIGURE 4.14
Origins Listed in CN and CP Rail
1991 Contract Summaries



While CN and CP Rail filed contracts showing origins in all regions of the country and the U.S., there were some important regional differences between them. Figure 4.14 depicts the percentages of 1991 contract summaries according to various regions of origin for CN and CP Rail, respectively. It is important to note that since many contracts list more than one origin, the sum of the origins exceeds the number of contracts.

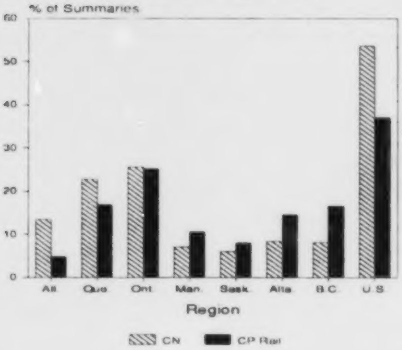
Atlantic Canada was cited more frequently as an origin in CN's confidential contracts than CP Rail's, a situation explained by the relative importance of their respective networks in the region. CN also had a greater proportion of contract summaries with Québec and U.S. regions in 1991 than CP Rail. In fact, CN listed U.S. origins in 35 per cent of its 1991 contracts. This was a higher percentage than for origins in any individual Canadian region. Comparatively, CP Rail had U.S. origins in only 18 per cent of its 1991 contracts. However, CP Rail had a higher percentage of contracts listing Ontario as an origin than CN. In 1991 there was a Canadian origin listed in the majority of contracts filed by all the other carriers, despite the fact that most of the contract summaries of these other carriers were filed by U.S. based railways. About 60 per cent of these contracts listing a Canadian origin identified Ontario.

Destinations in the United States have formed, since 1988, an increasing percentage of total destinations listed in contracts.

In terms of destinations listed in the confidential contract summaries, all regions of the country and the United States were more evenly represented than in terms of origins. For instance, central Canada appeared as a destination in only one-third of all 1991 contracts, compared to 40 per cent for origins. This is the third consecutive annual drop in the percentage of contracts listing central Canada as a destination. Conversely, a higher percentage of contracts listing U.S. destinations has occurred annually. Destinations in the United States were listed in 43 per cent of the 1991 summaries. Within the U.S., the mid-west and northeast regions have been ranked each year as the top two regions in terms of destinations, in contrast to the ranking in terms of origins, where each year the mid-west and south have been the top two. In 1991, the U.S. mid-west region was second only to Ontario in terms of the most frequently listed destination region.

As with origins, CN had a higher percentage of its contracts listing destinations in Atlantic Canada, Québec and the United States, as shown in Figure 4.15, than did CP Rail. CN had only 14 per cent of its 1991 contracts listing Atlantic Canada as a destination compared to over 20 per cent in each of the years 1988-1990. The

FIGURE 4.15
Destinations Listed in CN and CP Rail
1991 Contract Summaries



proportion of CP Rail's contracts with destinations in the same region has declined annually from 11 per cent in 1988 to five per cent in 1991. In 1991, CN listed U.S. destinations in 54 per cent of its contracts, in contrast to Canadian destinations, which appeared in only 51 per cent of them. CP Rail continued to list western Canadian provinces as a destination much more frequently than CN. About one-third of CP Rail's 1991 contracts listed a western province, compared to less than 14 per cent for CN. Both railways, in terms of U.S. destinations, listed the mid-west and northeast regions most often. CN had an increase in the percentage of contracts listing these regions in 1991 relative to 1990, with CP Rail's percentage remaining constant.

Participating Carriers

The presence of the mid-west and northeast U.S. regions as destinations in CN and CP Rail contracts is not surprising given the locations of their U.S. subsidiaries and freer trade. Both railways have shown during the four year period a substantial increase in the number of contracts with participating carriers. A participating carrier is a railway which is involved with a portion of the overall movement that has been negotiated between the shipper and the principal carrier. CN and CP Rail had a participating carrier in only three out of every ten contracts filed in 1988. In 1991, three out every four CN contracts had at least one participating carrier, and the ratio was one out of every two for CP Rail. Although each of the major railways had, by 1991, about 100 different carriers listed within their respective contracts, a large number of participating carriers in contracts listed one of six railways. For CN, in 1991, in over 62 per cent of its contracts the participating carrier listed was one of the following six railways: Grand Trunk Western, Duluth, Winnipeg and Pacific, Consolidated Rail, CSX Transportation, Chicago and North Western, and Norfolk Southern. Similarly, CP Rail had 42 per cent of its 1991 contracts listing at least one of the following six carriers: Soo Line, Consolidated Rail, CSX Transportation, Delaware and Hudson, Burlington Northern, and Norfolk Southern. It is also noteworthy that the two Canadian Class I freight railways listed their U.S. subsidiaries as a participating carrier in a significant number of their contracts. CN's percentage of contracts listing its U.S. subsidiaries was 22 per cent in 1988 and this grew to 47 per cent in 1991. The Grand Trunk Western alone was listed in 29 per cent of CN's 1991 contracts. For CP Rail, its U.S. subsidiaries were reported in 29 per cent of its 1991 contracts, up from 14 per cent in 1988. The Soo Line appeared as a participating carrier in 25 per cent of CP Rail's 1991 contracts.

CN and CP Rail subsidiaries in the United States are participating in an increasing proportion of contracts filed by their Canadian parents.

Commodities Carried Under Contract

Products from the chemical, pulp and paper, lumber and food industries represent the commodities most frequently listed in the confidential contract summaries in 1991. These have been the same top four commodities in each of the years since 1988. The share of contracts listing at least one of these four commodities has declined from 65 per cent in 1988 to about 60 per cent of all 1991 contracts. This drop resulted in reductions in the percentages of contracts listing chemicals, lumber and food. However, the share of pulp and paper contracts grew from nine per cent of the total in 1988 to 18 per cent in 1991. Four additional commodities which appeared in many contracts in 1991 have been listed in an increased proportion of contracts since 1988. The number of contracts covering primary metals products, miscellaneous mixed shipments, waste or scrap materials and transportation equipment has increased since 1988 at a faster rate than the number of total contracts. This partially explains the decline in the share of the top four commodities since 1988.

Four commodities have accounted for over 60 per cent of all contracts: chemicals, pulp and paper, lumber and food.

Lumber was the third most frequently listed commodity in the 1991 contracts and there were considerably more contracts for lumber originating out of British Columbia than for any other commodity/region combination. This was followed in order of importance by pulp and paper from Québec and Ontario, chemicals from Ontario and Alberta and food products from Ontario.

In terms of the destination most often cited by commodity, contracts listing chemicals destined to Ontario had the highest frequency. This was followed in order of importance by pulp and paper destined to the mid-west and northeast regions of the U.S. and chemicals, also destined to the mid-west.

In terms of origin-destination pairs for major commodities in the 1991 contracts, lumber from British Columbia to the mid-west region of the United States was listed most often. This was followed by B.C. lumber to Ontario (presumably to reload centres), Ontario and Quebéc pulp and paper to the U.S. mid-west and Quebéc pulp and paper to the northeast region of the U.S. Of lesser importance were contracts covering chemicals from the U.S. south to Ontario and from Saskatchewan to the U.S. mid-west. Various origins and destinations were well distributed among contracts listing food products.

With a few exceptions, contracts with the top four commodities listed in confidential contracts (chemicals, pulp and paper, lumber and food) had durations similar to those for all contracts. In 1991, the percentage of contracts with durations of six months or less decreased for three out of the four commodities, in contrast to the trend for all commodities, while the percentage of contracts with durations of six months or less increased from 29 to 49 per cent for contracts listing food . The opposite holds true for contract lengths greater than six months and up to one year. Here the percentage of contracts with this duration grew for chemicals, pulp and paper, and lumber, in keeping with the trend for all commodities, while this percentage declined for contracts listing food.

Shippers and Confidential Contracts

During 1991, shippers reported shipping an average of 70 per cent of their traffic under confidential contract.

The number of shippers with confidential contracts continued to grow during 1991, although at a reduced rate. Overall, some 64 per cent of rail users who responded to the Agency's survey of shippers reported having a contract. This proportion varied by size of the respondent. Among small rail users, i.e., those with estimated rail freight bills of under one million dollars, 31 per cent reported having confidential contracts; by comparison, 85 per cent of medium rail users, with rail freight bills between one and ten million dollars, indicated that they had contracts while 96 per cent of the largest rail users, those with rail freight bills exceeding ten million dollars, reported contracts.

Survey respondents were classified according to the type of industry they indicated their companies belonged to, with some reporting more than one industry. Of the 25 industry groups in the survey, confidential contracts were reported by shippers in 24 of them, the one exception being the primary textile and textile products industry. Industries with a relatively high proportion of respondents with contracts included the mining, quarrying and oil well industry, paper and allied products, chemical and chemical products and refined petroleum and coal products. Industries with a relatively low proportion included printing, publishing and allied industries, fabricated metal products, machinery and electrical and electronic products.

Among the shippers with confidential contracts, respondents reported that, on average, 70 per cent of their companies' traffic shipped on Canadian railways moved under confidential contracts in 1991. This proportion varied from 56 per cent for small rail users to 80 per cent for the large ones, and was highest for respondents in the refined petroleum and coal products, the wood and the paper and allied products industries. About one in four respondents reported that the proportion of their traffic moving under contract was greater in 1991 than in 1990, with almost all of the others reporting that it was the same proportion in both years. Relatively twice as many large rail users as small rail users reported shipping a greater proportion under contract in 1991.

On an industry basis, increased proportions under contract were reported relatively more often by respondents in the plastic products, wood, refined petroleum and coal products and agricultural and related services industries. Shippers were also asked to indicate whether their total rail volumes moved in 1991 increased over 1990. It was ascertained that over half of the respondents who shipped a greater proportion of their traffic under contract in 1991, also increased their total rail volumes. This was in contrast to those who shipped the same proportion under contract, where less than one in five had increased rail volumes. Respondents who shipped over 90 per cent of their traffic under contract most commonly reported moving the same proportion in both years, which is to be expected, given their high level of contract use.

Almost two-thirds of shippers, from all regions of Canada, reported that confidential contracts had a positive impact on their company in 1991.

Shippers in all regions of Canada reported that confidential contracts had a positive impact on their company in 1991. Overall, some 62 per cent of respondents reported very positive or positive impacts, with the remaining shippers reporting no impact. A similar proportion of respondents, some 61 per cent, gave this assessment of confidential contracts in a separate survey of Atlantic Canada shippers carried out by the Atlantic Provinces Transportation Commission. A large shipper in the Québec forest industry stated in response to the shippers survey "Rate reductions or allowances of tariffs secure service and car supply". A medium-sized shipper in the public sector in Manitoba indicated that the railways were "More cooperative and willing to deal when content of contract is unavailable to competition". A small shipper of chemical products located in British Columbia, in referring to contracts, reported that a contract "Offers advantages for shippers and railways in doing business". Similar sentiments were expressed by many shippers of different sizes and in different regions. For respondents who actually had confidential contracts with Canadian railways, the proportion of positive responses was 71 per cent. The proportion of positive responses also increased with shipper size, with the highest proportion, 77 per cent, coming from the large shippers with confidential contracts. The railways as well have continued to be generally positive about the impact of the confidential contract provisions. In its submission to the Agency, CN stated "For our customers and CN, these remain by far the most important and positive provision in the new regime".

About two-thirds of the respondents reported that they had confidential contracts with Canadian railways that expired in 1991. Approximately 29 per cent of shippers who had contracts expiring in 1991 reported that they moved a greater proportion of their traffic under contract in 1991 than in 1990, compared to only 19 per cent of those who did not have contracts expiring. Since most of the expired contracts were renewed with changes, it may well be that these changes were sufficiently attractive to capture more of the shippers' traffic. Incidentally, six of the respondents who reported moving a smaller proportion of their traffic under contract had contracts expiring in 1991. All six renewed their contracts, five of them with changes.

Survey respondents were asked to rank the factors on which their companies placed the most emphasis in confidential contract negotiations with Canadian railways in 1991. Overall, respondents placed rate concessions first, rate escalation guarantees and service guarantees tied for second and equipment guarantees a more distant fourth. These rankings were generally true regardless of shipper size, although the larger shippers gave higher average rankings to rate concessions and equipment guarantees than the smaller shippers. (Table 4.4)

Shippers continued to rank confidential contracts as their most important tool in achieving competitive terms and conditions.

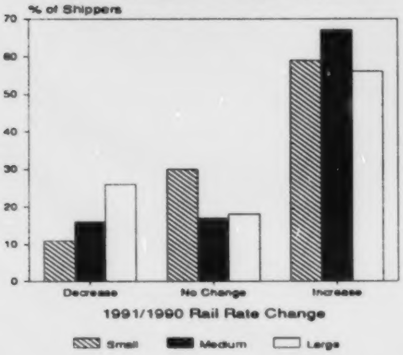
With respect to achieving competitive terms and conditions for rail services, shippers gave top ranking to confidential contracts, even higher than access to other modes of transportation, which came in second place. Typical of the comments received by the Agency on this matter is the following from a medium-sized Québec shipper in the food products industry "[Confidential contracts are the] most important aspect of transport today". Considerably lower average rankings were given to interswitching, competitive line rates and joint rates. In general, this order of rankings did not change much with size of shipper, although small shippers ranked access to other modes of transportation somewhat ahead of confidential contracts. It was determined that shippers who ranked confidential contracts among the top three relied on rail service for carrying, on average, approximately 40 per cent of their total traffic. This proportion did not vary much regardless of which factor was examined, indicating that shippers' rankings were not influenced by the relative importance of rail in their total traffic.

TABLE 4.4
Factors of Importance to Shippers in Confidential Contracts

Factor	Rank			
	1988	1989	1990	1991
Rate Concessions	1	1	1	1
Rate Escalation Guarantees	2	2	3	2
Service Guarantees	3	3	2	2
Equipment Guarantees	4	4	4	4
Demurrage Relief	5	5	5	5
Most Favoured Buyer Clauses	6	6	6	6
Extended Credit	7	7	7	7

Confidential contracts have been the great success story of the new transportation legislation, being looked upon favourably by carriers and shippers in all regions of the country. Already, by the end of 1988, the first year that confidential contracts were permitted in Canada, almost half of the rail shippers responding to the Agency's survey stated they had contracts with Canadian railways; by 1991, this proportion had risen to almost two-thirds. Not only did an increasing proportion of respondents indicate that they had contracts, they also indicated that they moved an increasingly larger share of their traffic under contract. This share has stabilized at around 70 per cent in recent years. While survey respondents have indicated that in each year about two-thirds of them have contracts expiring, almost all of them were able to renegotiate the expired contracts, most of them with changes. Shippers were also remarkably consistent over the past four years in terms of the factors on which they placed the most emphasis in negotiations for confidential contracts with Canadian railways. Rate concessions were always the most important, with service and rate escalation guarantees rating second or third position and all the other factors not changing in ranking. In recent years service guarantees as a factor have earned a higher average ranking than in 1988 and 1989.

FIGURE 4.16
Rail Rate Changes Reported by Small, Medium and Large Shippers



Rate Levels

In 1991 shippers reported an unweighted average rate increase over 1990 of 1.2 per cent. Of course, not all shippers had the same rate experience. Three-fifths of the shippers reported higher rates, for an average increase of 3.3 per cent, one quarter reported no change in rates and the remaining one-sixth reported an average decrease in rates of 4.8 per cent. The average rate increase for small rail users was over three times higher than for large rail users, with a much greater proportion of the latter reporting rate decreases. (Figure 4.16) Respondents in the paper and allied products, wood and plastic products industries, two sectors affected by severe declines in their demand, reported rate increases below the all shipper average of 1.2 per cent, while respondents in the mining, quarrying and oil wells, food products and agricultural and related services industries were faced with above average increases. Survey results seem to confirm that rail rate setting continues, even under regulatory reform, to be dictated, when there is no competitive alternative, by the principle of "what the traffic will bear".

More than one-half the respondents to the survey indicated that they were in contract negotiations with Canadian railways in 1991. These negotiations often included rates among matters being discussed. Shippers under negotiation in 1991 reported an average increase in rates of under one per cent, compared to over 1.6 per cent for those who were not. Most of the benefits of rate negotiations went to the significant number of respondents who said they used the possibility of interswitching as a bargaining tool in their negotiations. This group of shippers, mainly medium and large companies, reported an average rail rate increase of just over one-tenth of one per cent.

Responses to the shippers survey show that, for many shippers who used both rail and truck, rate competition between the two modes existed in 1991. Shippers whose rail rates increased also had truck rates that increased and shippers whose rail rates decreased also had truck rates that decreased. Also, the more the rail rate increased or decreased, the more the truck rate increased or decreased. Shippers who reported no change in their rail rates reported a minimal change in their truck rates. Truckload rates, however, increased on average much less than rail rates, 0.7 per cent for extra-provincial domestic compared to 1.2 per cent for rail. This spread between the truck and rail rate increases is very significant for small and medium rail users but disappears for the largest rail users. It could be that competition within the trucking industry is keeping rates down for the small to medium shippers and that competition between rail and truck is effective mainly for larger shippers.

For many large shippers, competition between rail and truck helped keep their rates down.

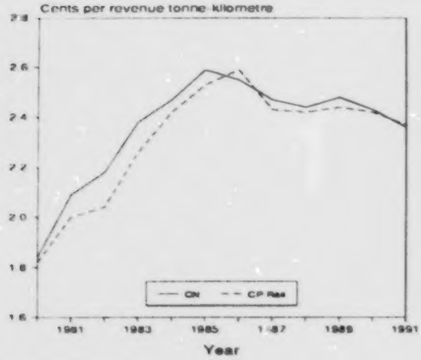
When faced with a general commodity rail rate increase in 1991, the most commonly reported responses among shippers were to absorb the increase or to negotiate a reduction. Shippers who negotiated a reduction reported an average rate increase of only 0.2 per cent while those who absorbed the increase reported an average rate increase of 2.7 per cent. Even the largest rail users who said they absorbed the increase had an average rate increase of 1.8 per cent. A number of shippers reported that they switched to another mode of transport when faced with a general commodity rail rate increase. However, survey data show that more of the shippers who gave this response shifted some of their traffic to the rail mode from other modes than from rail to other, indicating that for these shippers the railways were competing with other modes to retain their traffic.

Another factor of benefit to shippers was confidential contracts. Those with contracts reported average rail rate increases that were less than half of those without contracts. It is interesting to note that these lower rate increases were available to shippers regardless of the proportion of their company's Canadian railway traffic moved under contract. On the other hand, respondents who increased, the proportion of their company's traffic moving under contract, from 1990 to 1991, reported rate increases only half as large as those who shipped the same proportion in both years. It appears that the railways are willing to give rate concessions in return for volume. Furthermore, respondents who had confidential contracts that expired in 1991, and who subsequently renewed the contracts with no change in the terms and conditions, reported rate increases somewhat higher than those who renewed their contracts with changes, but that were still considerably lower than those whose contracts did not expire at all in 1991. This leads one to believe that rate related conditions in contracts are reexamined very carefully in the renegotiation of contracts by carriers.

Shippers with confidential contracts reported much smaller rate increases than those without contracts.

A large majority of respondents with confidential contracts reported that their contract rates were lower than published tariff rates. This was particularly the case for the largest shippers and for shippers in the food products, paper and allied products, and refined petroleum and coal products industries. Many of the shippers in these industries, however, found their contract rates increasing from 1990 to 1991. The minority of respondents, who said that their confidential contract rates were no different or higher than published rates, moved about 61 per cent of their company's Canadian railway traffic under contract in 1991, compared to 72 per cent for those who said that their contract rates were lower. Overall, some 46 per cent of respondents said that their contract rates were higher in 1991 than in 1990, and 26 per cent said that they were lower. For rail rates in general, 58 per cent said their rates were higher in 1991 and 16 per cent lower, confirming again the rates benefits obtainable under confidential contracts. It was also determined that relatively more of the respondents who obtained lower contract rates in 1991 shipped a greater proportion of their traffic under contract in 1991 than those respondents whose rates were no different or higher. On the other hand, there was not much difference in the average percentage of traffic under contract in 1991 among shippers regardless of their contract rate change experience.

FIGURE 4.17
Freight Revenue CN and CP Rail



1991: Preliminary figures

In responding to the shippers survey questions on rates, shippers have been reporting on their experience in moving their own companies' goods. From the railways' perspective, the amount of revenue from carrying goods is dependent not only on the general level of rates but also on the overall traffic mix. If the railways were to carry a smaller proportion of high-rated commodities, that would tend to lower the average revenue from the carriage of goods. One standard method of comparing railway average revenues is to show the average freight revenue per revenue tonne-kilometre. In 1991, for the second consecutive year, the average freight revenue per revenue tonne-kilometre reported by CN and CP Rail has declined. (Figure 4.17) As previously mentioned in the traffic section, relatively high-rated manufactured goods, many of which move in intermodal traffic, accounted for a smaller percentage of railway total traffic in 1991. Furthermore, the average length of haul increased by 2.6 per cent in 1991, and rail rates per kilometre generally taper off with distance.

The average freight revenue per revenue tonne-kilometre for Canada's major railways declined for the second year in a row.

Shippers have reported rate increases under the new legislation that have been under the general rate of inflation. In fact, in year one of the reform, 1988, when the railways were busily signing up many shippers under confidential contracts, the unweighted average rate change from 1987 was a decrease. Since then the average year to year change has been an increase of between 1.0 and 1.3 per cent. In each of the years since 1988 shippers have been asked to indicate their reaction if a Canadian railway implemented a general commodity increase. Respondents have consistently chosen "successfully negotiated a reduction in the increase" and "absorbed the increase" as either first or second most popular response. Users of truckload services were asked the same question with respect to truck rates and their responses certainly indicated a difference in practical options from those available to rail users. From 1988 to 1991, between 25 and 33 per cent of the respondents indicated they switched their traffic to another trucking firm in the event of a truckload rate increase, in sharp contrast to the three to six per cent of rail shippers who switched to another railway. In fact, far more of the rail shippers, from 12 to 19 per cent, switched to another mode, compared to only three to five per cent of truckload shippers. (Table 4.5)

TABLE 4.5
Shippers' Response to Proposed Rate Increase by Carrier

	Percentage of Respondents			
	Rail			
	1988	1989	1990	1991
Absorb Increase	25	31	34	39
Negotiate Reduction	36	31	35	38
Intra-Modal Carrier Switch	6	3	3	4
Inter-Modal Carrier Switch	15	13	12	19
	Truckload			
Absorb Increase	18	23	33	24
Negotiate Reduction	52	49	50	56
Intra-Modal Carrier Switch	25	32	31	33
Inter-Modal Carrier Switch	3	3	5	4

Confidential contracts have from the beginning offered rate concessions to the shippers who had them, with each year the large majority of respondents reporting contract rates lower than published tariff rates. In terms of year to year changes among contract rates, the pattern of shipper responses has been very stable over the past three years, i.e., about 26 per cent reporting a decrease compared to the previous year, about 30 per cent reporting no change in rates and about 44 per cent reporting an increase in their contract rates. It is notable that this pattern has held in spite of the impact of the economic recession on many shippers.

Competitive Access and Dispute Resolution

Interswitching

Under the interswitching provisions in the *NTA, 1987*, where the point of origin of a movement of traffic is within a radius of 30 kilometres of an interchange, a shipper located on one railway can have its traffic interchanged, under maximum rates prescribed by the Agency, to another railway for the line-haul. Similar provisions apply with respect to terminating traffic.

Based on survey responses, about 50 per cent of all shipper facilities served by rail in Canada are within interswitching limits of another railway.

Responses to the shippers survey questions on interswitching were received from shippers in each of the eight provinces served by rail. Based on unweighted averages for the eight provinces, half of the shippers have facilities served by one railway and within interswitching limits of another railway, one-fourth of the shippers have facilities served by one railway and beyond interswitching limits of any other railway and the remaining shippers have facilities with direct access to two or more railways. It should be noted that many shippers reported having facilities in more than one province. The provinces with the highest proportion of respondents having facilities within interswitching limits are Ontario, Manitoba and Québec, with approximately two-thirds reporting facilities within interswitching limits, and the provinces with the lowest proportion are New Brunswick and Nova Scotia, with approximately one-fourth reporting facilities within interswitching limits.

When shippers were asked to assess the impact on their company in 1991 of the interswitching provisions, the responses generally reflected the above distribution of facilities within interswitching limits. The provinces with the highest proportion of shippers reporting no impact were Nova Scotia and New Brunswick, where there were relatively few facilities within interswitching limits, and the ones with the lowest proportion reporting no impact were Ontario and Québec, where relatively more facilities are within the limits.

Shippers who used the possibility of interswitching in their negotiations with the railways reported obtaining significant rate concessions.

In each of the eight provinces served by rail, there were shippers who had cars interswitched in 1991. Almost half, some 45 per cent, said they used interswitching primarily in order to obtain more competitive terms and conditions while 38 per cent said they used it to obtain better routing. Only in Nova Scotia and Manitoba did more shippers cite better routing as the primary reason. When the results were analyzed by size of rail user, it was found that small users more frequently gave obtaining better routing as a reason for having cars interswitched while large users more frequently indicated that obtaining more competitive terms and conditions was their primary reason. Among those who indicated the latter reason, the proportion of shippers who reported a rate decrease in 1991 was three times higher than among those who gave better routing as a reason.

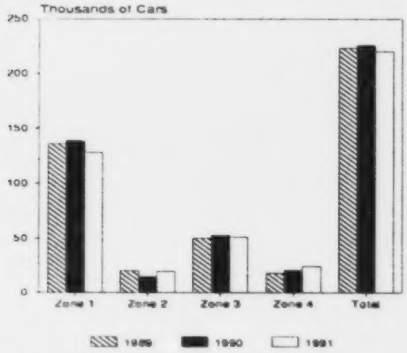
In addition to using interswitching for the above-mentioned reasons, many shippers reported that they used the possibility of interswitching as a bargaining tool in their negotiations with Canadian railways in 1991. While 25 per cent of small rail shippers reported using interswitching this way, the proportion rises to 38 per cent for medium shippers and to 58 per cent for large ones. As was noted above in the discussion of rate levels, there were significant rate concessions reported by shippers who used the interswitching provisions in their negotiations.

Some 32 per cent of respondents to the survey indicated that the interswitching provisions had a positive or very positive impact on their firms in 1991, in contrast to only four per cent who gave negative assessments. Aside from the Atlantic provinces, where opportunities for interswitching are restricted due to CP Rail's limited rail operations in that region, this level of positive assessment was given by shippers in all regions and, furthermore, this level of positive assessment was consistent across all sizes of rail users. Typical of this attitude is the following comment from a small manufacturer "[Interswitching] has dramatically improved transportation and competitiveness."

Over half of all interswitching conducted by Canada's major railways takes place at Vancouver and Thunder Bay and involves bulk and containerized commodities.

Four zones based on distance have been established by the Agency for the purpose of setting maximum rates. Zone 1 covers distances up to 6.4 kilometres and is equivalent to the four-mile limit in effect before 1988; Zone 2 covers distances from over 6.4 kilometres to 10 kilometres; Zone 3 from over 10 kilometres to 20 kilometres; and Zone 4 from over 20 kilometres to 30 kilometres. In 1991 the number of cars interswitched by CN and CP Rail for all other railways in Canada declined by about two per cent in comparison with 1990. Most of the decline occurred in Zone 1, which accounted for about 57 per cent of total interswitching and, to a lesser extent, in Zone 3, which accounted for about 23 per cent of interswitching. The number of cars interswitched in Zones 2 and 4 increased substantially in 1991. About one-third of all interswitching activity was composed of the handling of bulk and containerized commodities at Vancouver, mostly in Zones 3 and 1, and another 20 per cent involved the exchange of grain cars for delivery to terminals in Thunder Bay, almost all of it in Zone 1. Many of these movements were governed by special agreements on charges between CN and CP Rail.

FIGURE 4.18
Interswitching by Zone CN and CP Rail



1991 Preliminary figures

Shippers and carriers have had four years to adjust to the new interswitching provisions. Figure 4.18 shows interswitching data for the past three years. (Data for earlier years are not available on a comparable basis and data for 1991 are preliminary.) The data indicate that about 40 per cent of interswitching activity has taken place in the expanded interswitching limits of Zones 2 to 4, although it is not possible to identify with precision from the data how much of this was activity under ongoing special agreements between the railways and how much was new activity generated by the legislation. Certainly, comments received from both shippers and carriers indicate that there has been an increase in competition between CN and CP Rail as a result of the new interswitching provisions and that many shippers have been using the possibility of interswitching as a bargaining tool. Shippers who have had cars interswitched generally did so to obtain either a better routing for their traffic or more competitive terms and conditions, with more of the latter during the last two years of economic recession.

Both CN and CP Rail, in their submissions to the Agency on the operation of the *NTA, 1987*, have expressed serious reservations about certain aspects of the interswitching regulations. Major concerns have been raised about the regulations being applied to interswitching movements between Canadian and U.S. railways, thus conferring, it is claimed, undue bargaining power on U.S. rail competitors, about the Agency's interpretation of the provisions permitting extension of interswitching beyond the 30-kilometre limit. Concerns have also been raised about the principle of regulated interswitching rates based on system-wide average costs instead of market-based rates.

Competitive Line Rates

Since the *NTA, 1987* came into effect, any shipper who is local to one railway and beyond interswitching limits, can ask its local railway to establish a competitive line rate (CLR) for moving its goods between the point of origin or destination of the traffic and the nearest interchange with a connecting railway. To do so, the shipper must already have reached an agreement on rates and other conditions with the connecting railway. If the shipper and the local railway cannot agree on the CLR, the shipper can ask the Agency to determine the CLR according to legislated guidelines. CLRs were created in order to maintain the balance of power between captive shippers and railways in a deregulated environment.

Shippers support competitive line rates as a bargaining tool while carriers oppose them for a variety of reasons, including the power they give to shippers.

The Agency, in the first four years under the new legislation, has received, in essence, only two applications for competitive line rates. One was an application from CSP Foods Limited, in 1989, for the movement of canola oil. The other, made initially in 1988 and repeated each year since, was from Alberta Gas Chemicals Limited for the movement of methanol. In both applications the connecting carrier was a United States railway; neither CN nor CP Rail has been involved as a connecting railway in CLR applications to the Agency. Of the 293 rail users who responded to the shippers survey, only 15 indicated that they had even undertaken negotiations with connecting railways with the objective of having CLRs established with their local railways. For the majority of shippers, it seems, the greatest value of the CLR provisions lies in their use as a bargaining tool. The following opinion was expressed in response to the shippers survey by a large shipper in the lumber industry "CLRs provide backdrop for negotiations and as such are critical to maintaining balance between shippers and carriers". A number of other shippers made similar comments (e.g., a medium-sized public utility shipper commented that a CLR "Allows the shipper to negotiate with a competitive edge"). A small Ontario electronics manufacturer phrased it this way" ...they were available should an impasse occur with our negotiations". Overall, some 18 per cent of respondents to the survey reported that competitive line rates had a positive or very positive impact on their company, with the highest positive assessment in Alberta and the lowest in the Atlantic Provinces, Manitoba and Saskatchewan.

The railways have consistently opposed the competitive access provisions in the legislation. Among the reasons given for their opposition, they have claimed that these provisions give undue bargaining power to shippers, resulting in rates so low that they threaten railway viability, that a railway's investments could be appropriated by its competitors, resulting in a disincentive to invest, and that U.S. carriers can use the CLR provisions to skim off traffic originating in Canada, resulting in a loss of Canadian jobs and tax revenues. The railways have received support in their opposition from the Halifax-Dartmouth Port Development Commission. In their brief to the Agency respecting the 1991 Annual Review, the Commission commented: "Inadvertently, competitive access provisions have benefitted U.S. rail carriers by allowing them access to inland rail terminals in central Canada. It is questionable whether competitive access provisions should be maintained for U.S. rail carriers when no parallel legislation exists in the U.S. for Canadian railways".

Dispute Resolution Provisions

The *NTA, 1987* contains a number of provisions, namely mediation, final offer arbitration and public investigations, meant to be used in the event that shippers and carriers are unable to reach agreement on the terms and conditions for the transport of goods. Continuing the pattern established in previous years, little use was made of these provisions during 1991, indicating that shippers and carriers are generally able to reach agreement without the involvement of the Agency. As one medium-sized Ontario rail user stated "[Carriers and shippers] should work out differences on their own. Methods of [dispute] resolution should be a last resort." In spite of the fact that these provisions are rarely used, most of the comments received from shippers support their retention in the legislation on the grounds that they are an "integral part of deregulation" (petroleum industry shipper) and that their availability "ensures a degree of moderation on both sides" (forest products industry shipper). Survey results indicate that the dispute resolution provisions are looked upon most favourably by respondents in the following groups: companies whose rail freight bill in 1991 exceeded one million dollars, companies that relied on rail for carrying over 70 per cent of their traffic and companies with shipments originating in Alberta and British Columbia.

Access to Rail Infrastructure

Much has been written about the costs of transportation infrastructure and about how the incidence of these costs differs between the rail and other modes. One suggestion that has been made for alleviating the railways of any burdens caused by having to own and maintain their own rights-of-way is to have the use of those rights-of-way shared with other rail operators. This could involve institutional changes ranging from relatively minor ones such as increased running rights to such major ones as the complete separation of ownership of track and carriage.

In Europe this idea has been given some impetus recently. On 29 July 1991, the Council of the European Communities issued a Directive providing for a separation, for accounting purposes, between the supplying of transport services and the management of the railway infrastructure. With this Directive, any public or private railway undertaking offering freight and/or passenger service shall be given access to the railway infrastructure on a non-discriminatory basis. This Directive is to be implemented in national laws, regulations and administrative provisions by 1 January 1993.

A Summary of the Competitive Environment in Rail Services

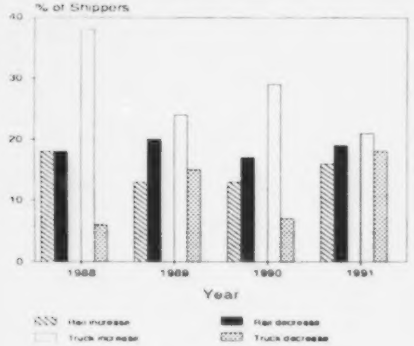
The provisions of the *NTA, 1987* are designed to promote competition between railways and between modes. Shippers are generally positive about the impact of these provisions on their operations and count confidential contracts and competitive access among the most important factors in achieving competitive terms and conditions in rail services. Many shippers have also asserted that the provisions of the new legislation are most effective when considered all together as a package. A major chemical producer in western Canada stated "*NTA, 1987* provided shippers with competitive railway access, individually negotiated private versus published freight rates, and dispute resolution procedures. It is imperative that we maintain these access and competitive provisions after the scheduled five year review in 1992. These provisions are extremely important when competing against imports/exports (foreign competition)."

The recession affected many shippers as more of them reported decreased than increased traffic volumes in 1991.

The effects of the economic recession were certainly felt in the area of the competitive transportation environment during 1991. The responses to the shippers survey indicated that in 1991, for the first time, more respondents reported a decrease in total freight volumes than an increase. Considerably more of the larger shippers than the smaller shippers reported a decrease in volumes shipped. Sectors that appear to have been particularly hard hit by the recession include the wood, paper, plastics and chemical industries, which had a disproportionately large number of firms reporting decreases in total volumes. Rail was the only mode where more shippers reported a decrease in modal volumes than an increase. For all other modes, especially intermodal, more respondents reported an increase in modal volumes than a decrease.

Shippers who reported a decrease in their 1991 rail volumes were evenly distributed among small, medium and large rail users and many of them were in the forest products, chemical, food and plastics industries. It is worth noting, however, that many rail users also reported increases in their rail volumes and these also were distributed fairly evenly by size. The survey data, reflecting the dynamics of the marketplace show, surprisingly, that more rail users also reported a decrease in their 1991 truck volumes than an increase. Among respondents who changed their modal volumes in 1991, rail users had total freight bills from 40 to 50 per cent larger than truck users, reflecting the different shipper size characteristics of the modal markets. For both modes, respondents who decreased their volumes in 1991 had larger total freight bills than those who increased their volumes.

FIGURE 4.19
IShippers' Reporting Changes in Traffic Volumes



Responses to the shippers survey since 1988 have reflected the deteriorating economic situation. Each year has seen a lower proportion of respondents reporting an increase in volumes shipped over the previous year and a higher proportion reporting a decrease until, in 1991, there were more decreases than increases. When the data are examined on a modal basis, there is more variation to be observed. Rail has had from 13 to 18 per cent of respondents reporting increased volumes and from 17 to 20 per cent reporting decreased volumes, with 1989 being the worst year. The corresponding figures for the truck mode are: increases, from 21 to 38 per cent and decreases, from 6 to 18 per cent, with 1991 definitely being the worst year. (Figure 4.19)

A significantly greater number of shippers reported that they had shifted traffic in 1991 from truck to rail carload or to rail intermodal (trailers or containers on flat car) than was reported for the opposite shift (90 vs 66 shippers). Over 80 per cent of those who shifted from truck to rail cited rates as the primary reason for the shift, compared to only 44 per cent of those who shifted from rail to truck. The latter, in reporting the primary reason for changing modes, mentioned changes in market conditions as often as rates. Industries where more shippers reported moving from truck to rail than from rail to truck include plastic products and wood for carload and fabricated metal products, wholesale trade and retail trade for rail intermodal. The opposite situation prevailed in the following industries: refined petroleum and coal products and agricultural and related services. Among the respondents who reported rail and truck traffic shifts to the other mode, 30 per cent had truckload (domestic) rate increases and 21 per cent had rate decreases, compared to 41 and 17 per cent respectively for all shippers in the survey. This may be due to the influence of rail competition on truck rates for these groups of shippers. It was also determined that, among the respondents who shifted traffic from truck to rail in 1991, much higher than average proportions reported overall improvements in Canadian railway service (56 per cent against 37 per cent for all respondents) and overall deteriorations in for-hire truckload services (16 per cent against 8 per cent for all respondents), indicating that service factors, as well as rates, played a role in these shifts.

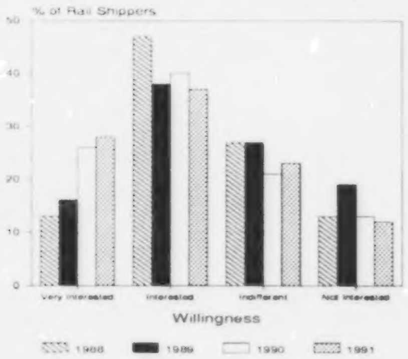
Most shippers indicated that Canadian railways were interested in competing against each other in 1991.

Greater competition between railways in Canada was also one of the objectives of the new legislation. Some two-thirds of respondents to the survey indicated that Canadian railways were interested in competing against each other in 1991, and almost 30 per cent said they were more interested in 1991 than in 1990. These results did not vary much by size of rail user. Respondents in the petroleum and chemical industries gave particularly favourable assessments of the willingness of Canadian railways to compete with each other while unusually unfavourable assessments were given by respondents in the food products industry. Among shippers who used the possibility of interswitching as a bargaining tool in their negotiations with Canadian railways in 1991, almost 77 per cent reported that the railways were interested in competing against each other. This proportion rises to 83 per cent among those respondents who actually had cars interswitched in order to obtain more competitive terms and conditions. These data indicate that shippers who used interswitching, either as a bargaining tool or to move cars, were generally impressed with the Canadian railways' willingness to compete against each other. When responses for those who had confidential contracts were compared to responses for those who did not have contracts, it was concluded that a much higher percentage of the former thought Canadian railways were interested in competing against each other. Again, it appears that those who used the pro-competitive provisions of the legislation looked favourably on rail intra-modal competition. When it comes to rate changes, it was determined, not unexpectedly, that shippers who thought the railways indifferent or not interested in competing against each other reported rate increases twice as high as those who thought the railways were interested.

The number of shippers who reported shifting traffic from truck to rail TOFC services almost doubled from 1989 to 1991.

For the past three years the Agency has been collecting data from shippers on traffic shifts between modes. The data support the contention that there is competition in the transportation marketplace between trucking companies and railway companies, and that railways are closing the gap separating them from trucks in the eyes of many shippers. Each year about 45 shippers have reported that they shifted some traffic from truck to rail carload, with an increasing number giving rates as the primary reason for the shift. Whether shippers are more price conscious because of the recession or whether railways are more price competitive with trucks is not possible to determine from the data. Meanwhile, the number of respondents reporting having shifted traffic from rail carload to truck has been steadily declining from 76 in 1989 to 47 in 1991, with rates playing a minor role among reasons for the shifts. However, it is in the area of competition between truck and rail trailer on flat car (TOFC) services that the most dramatic shifts have occurred. The number of respondents who reported shifting traffic from truck to TOFC increased from 20 in 1989 to 37 in 1991, while the number who shifted from TOFC to truck has declined from 32 to 11 over the same period. The railway encouragement of and investments in intermodalism appear to be effective. Rail efforts to promote domestic container on flat car (COFC) services, as far as respondents to the shippers survey are concerned, do not appear to be particularly successful in attracting traffic from truck. From 1989 to 1991, only 34 shippers in total reported shifting traffic from truck to COFC and only 28 from COFC to truck.

FIGURE 4.20
IWillingness of Railways to Compete



In 1988 about 60 per cent of shippers reported in the survey that they considered Canadian railways to be interested in competing against each other. This proportion declined in 1989 but for the past two years has been close to two-thirds. (Figure 4.20) Nearly 30 per cent of respondents in each of the past two years have also expressed the opinion that Canadian railways were more willing to compete against each other than during the previous year.

Taxation Changes Affecting Railways

The federal government in December announced refinements to the tax system affecting the transportation sector and a special temporary program providing immediate cash-flow benefits in exchange for reduced income tax deductions in the future.

There are two measures having a direct impact on the railway industry:

- A two-year loss offset program offering partial rebate of federal excise tax on diesel fuel in exchange for a reduction in the losses the railways would otherwise use to reduce future income taxes.
- Effective for acquisitions after December 6, 1991, the Capital Cost Allowance rate was increased from seven to 10 per cent for railway cars and from four to 10 per cent for track and grading, traffic control and signalling equipment, bridges, culverts, tunnels and trestles which are ancillary to railway track. These adjustments were made to better reflect actual depreciation experience.

Since the new legislation came into effect, both CN and CP Rail, in public statements and in submissions to the Agency, have advanced the view that the amount of competition in the transportation marketplace, under the present regulatory and policy environments, is such as to threaten the ongoing viability of Canada's railways. Among the regulatory and policy deficiencies which they claim have brought about this situation, they mention the following: the trucking mode not paying its full share of the cost of public highways and, as well, benefitting from diesel fuel taxes paid by the railways; the competitive access provisions of the legislation, said to have resulted in a significant drop in railway rates compared to inflation and to loss of traffic to U.S. railways; the Agency guidelines on apportionment of costs for grade separation projects which, say the railways, favour road traffic; the more onerous taxation regime imposed on Canadian railways compared to U.S. ones, primarily in the areas of income, property and fuel taxes and depreciation rates; and, lastly, the complexity of the process to abandon or sell part of the railway line. The railways have called for the elimination of the alleged inequities and the implementation of a comprehensive national freight transportation policy that would allow the policy declaration in section 3 of the *NTA, 1987* to be truly effective.

Service

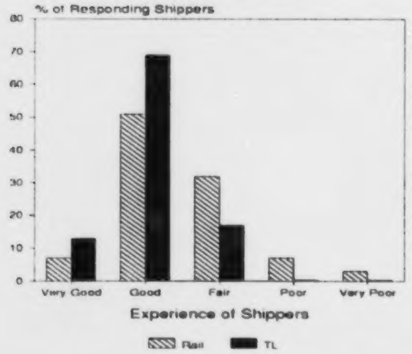
The proportion of shippers reporting improved Canadian rail service increased in 1991.

Thirty-six per cent of respondents to the shippers survey indicated an improvement in the overall level of service their company received from Canadian railways in 1991. This represents a significant increase over the number reporting improved service in 1990. While there were shippers reporting improvements in all size categories, the proportion reporting improved service increased directly with size of rail user. In the following industry groups there were above average numbers of shippers reporting improved railway service: mining and oil wells, plastic products, wood, petroleum and coal products and wholesale trade. Deterioration in railway service, reported by 15 per cent of shippers overall, was notable in such industries as food products and miscellaneous manufacturing. Respondents who had confidential contracts in 1991 gave a more favourable assessment of changes in railway service than those who did not have contracts, and this was even more true for those shippers who increased the proportion of their traffic moving under contract. Nevertheless, even those shippers who reduced the proportion of their traffic under contract gave an above average assessment of changes in railway service.

The proportion of shippers indicating an improvement in the overall level of service received from for-hire trucks in 1991 was 37 per cent, about the same as for rail. However, the proportion reporting a deterioration in truck service was only eight per cent, in contrast to 15 per cent for rail. It was determined that 16 per cent of the respondents who shifted traffic from truck to rail reported a deterioration in trucking service and that 55 per cent of those who shifted traffic from rail to truck reported an improvement in year-over-year truck service. It is clear from the data, however, that more than service quality enters into shippers' modal choice decisions. Of the 75 largest rail users responding to the survey, 42 reported improved railway service and 24 improved truckload service in 1991. Yet, of the group of 42, 15 reported having shifted some traffic away from rail to other modes, mainly truck. These shifts were primarily due to changes in market conditions. Not surprisingly, shippers' perceptions of changes in railway service were coloured by their freight rate experience in 1991 - those who indicated a deterioration in rail service reported an average rate increase some five times higher than those who indicated an improvement in rail service.

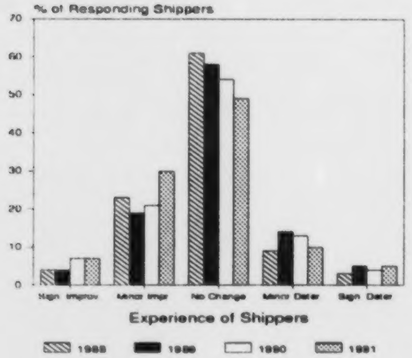
As in previous years, shippers were asked to evaluate the following twelve factors in connection with the service they received from Canadian railways in 1991: carrier cooperation; car tracing; claims handling; equipment condition; equipment supply; liability coverage; product care; service reliability; switching service; transit time; efficiency of service; and overall quality of service. Although there was a considerable variation among the evaluations given by the shippers to each factor, on average, 51 per cent of the shippers said the railways provided good or very good service for these factors, 39 per cent indicated that the service levels were acceptable and 10 per cent reported that the service was poor or very poor. It was noted that larger shippers were more generous in their evaluations of the service factors. Carrier cooperation and car tracing were the two factors with the highest percentages of shippers (65 and 63 per cent respectively) giving positive evaluations and claims handling and switching service were the two lowest (respectively, 38 and 42 per cent). These evaluations were generally consistent across all size of shipper, except that overall quality of service was second highest for the largest shippers. An analysis was done of the factor evaluations of the 15 per cent of respondents who reported a deterioration in rail service in 1991 compared to 1990. For these shippers, the lowest ratings were given to overall efficiency of service, switching service, transit time and service reliability.

FIGURE 4.21
IShippers' Rating of Overall
Quality of Service



Shippers were also asked to evaluate twelve similar factors in connection with the service they received from for-hire trucking companies in 1991. The responses of those shippers who used both rail and truck in 1991 were tabulated and compared to the responses with respect to rail service factors. On average, 79 per cent of the rail users indicated that trucks provided good or very good service for the 12 factors. The corresponding figure for rail was 51 per cent, and for each of the 11 factors where comparisons were possible the proportion of good and very good evaluations was lower for rail than for truck. Unlike the evaluations for rail, large shippers did not differ from small shippers in their average assessments of the various factors for truck. The factor with the greatest difference in evaluations between truck and rail service was transit time, and this was so for small, medium and large shippers. For small shippers the quality of liability coverage was also very different between the two modes, while for medium and large shippers differences in equipment condition were of greater significance. The factor with the smallest difference in evaluations was car (shipment) tracing. In fact, medium and large rail users, in this case only, gave more positive ratings to rail than to truck. The evaluations of the overall quality of service for shippers who reported using both rail and truck in 1991 are shown in Figure 4.21.

FIGURE 4.22
Overall Change in Rail Services Reported



The number of rail users reporting an overall improvement in Canadian railway service has been increasing since 1988, the first year the shippers survey was undertaken, and the numbers reporting an overall deterioration or no change have been decreasing since 1989. (Figure 4.22) It is remarkable that the railways have been able to merit this kind of response from shippers, considering that service expectations were probably increasing every year and, moreover, that the railways have reduced their labour force by over 30 per cent since 1985. It appears that the railway operational and marketing innovations and their investments in equipment and quality development programs for their employees have had a positive impact on a substantial number of Canadian shippers.

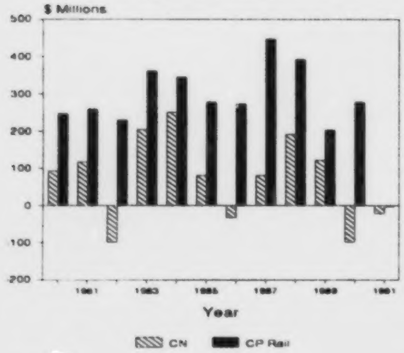
When one looks at how the shippers have evaluated the 12 service factors as they applied to Canadian railways over the past four years, one is struck by the consistency of the evaluations. In each year between 60 and 69 per cent of the respondents indicated that railway performance in car tracing or carrier cooperation was good or very good. The lowest rated factors have almost invariably included transit time, claims handling and switching service. Transit time, while still among the lowest rated factors, is the only one of the twelve where the proportion of respondents giving it a positive evaluation has increased each year.

Carrier Performance

CN improved its operating ratio in 1991, in contrast to CP Rail and major trucking companies.

The weakness of the economy resulting from the recession of 1990-1991 has meant that the 1991 traffic and revenue expectations of the two Class I freight railways have not been fully met. Nevertheless, since this recession was felt most forcefully in the manufacturing sectors of central Canada, its impact was much greater on the railways' main competitor, the trucking mode. Even though tonnages of intermodal and miscellaneous traffic declined between three and four per cent, the volume of the major bulk commodities on which the railways depend for so much of their tonnage and revenue was up; almost all of it due to the increase of over 25 per cent in grain shipments.

FIGURE 4.23
Net Income Before Taxes
CN and CP Rail

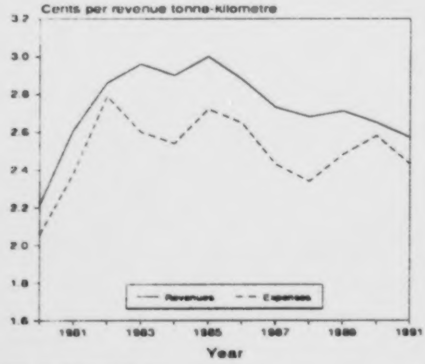


1991: Preliminary figures

Although preliminary data show that rail freight revenues for CN and CP Rail grew by $160 million in 1991, the benefits of this growth were lost through an increase in rail expenses of almost $250 million, all of it with CP Rail. CP Rail's expenses in 1991 were unusually large and were related to the settlement costs of work force reductions and the closing of the Angus Shops in Montréal. The effect of these unusual expenses has been a net loss before taxes of some $3.4 million, which is a great change from CP Rail's 1990 net profit before taxes of $278 million. The experience of the two railways has been quite different. CN showed a much improved operating performance over 1990 and this reduced their net loss before taxes from $100 million in 1990 to $20 million in 1991. CN achieved this result by holding the line on expenses while increasing revenues by some 2.5 per cent, which was the same change in revenues registered by CP Rail. (Figure 4.23)

One result of CP Rail's special adjustment costs in 1991 was a reduction of almost $200 million in their operating income. Meanwhile, CN increased their operating income by almost $100 million. These results were reflected in changes in the railways' operating ratios, defined as the ratio of the operating expenses to the operating revenues. A higher ratio means it is more difficult for the company to reduce debt, raise capital for investment or show a profit. From 1990 to 1991, CN's operating ratio declined from **97.6** to **94.9** while CP Rail's increased from **90.1** to **98.1**. By way of comparison, the average operating ratios of major Canadian trucking companies increased from **98.9** in 1990 to an even **100.0** in 1991, reflecting the greater severity of the impact of the recession on them.

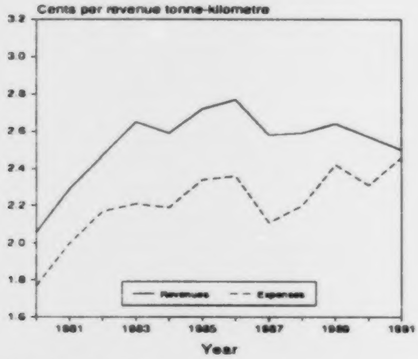
FIGURE 4.24
CN Operating Revenues and Expenses



1991: Preliminary figures

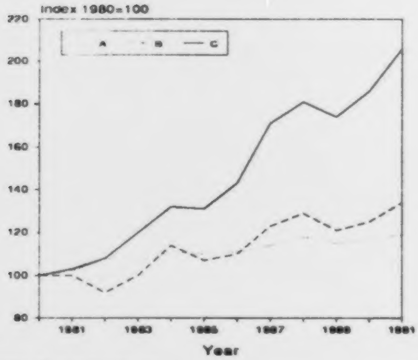
Revenues from carrying freight account for about 93 per cent of the combined revenues earned by CN and CP Rail, with the balance being accounted for by passenger service, government payments, and revenues for miscellaneous services. It is not possible to easily divide railway operating expenses among the various services provided by the railways. Figures 4.24 and 4.25 show, in cents per revenue tonne-kilometre, the changes in railway operating revenues and expenses since 1980. These numbers have not been adjusted for inflation. After reaching a peak in the mid-80's, both revenues and expenses per revenue tonne-kilometre have been on a generally declining path. As was mentioned in the section on rate levels, rail revenues per tonne-kilometre can be influenced by a number of factors, including traffic mix and the general competitive environment. In the absence of any major changes in these factors in the near future, the railways will have to adapt to a relatively constant level of revenues and look to reductions in operating expenses as the foundation for any lasting increases in net incomes and returns on investment.

FIGURE 4.25
CP Rail Operating Revenues and Expenses



1991: Preliminary figures

FIGURE 4.26
Rail Productivity Indices



1991: Preliminary figures

Legend:

A - Revenue tonnes per carload
B - Revenue tonne-kilometres per route kilometre
C - Revenue tonne-kilometres per employee

The railways, of course, have shown that they are fully aware of their situation. CN and CP Rail have taken various actions in the marketing, operational, management and investment areas, many of which were described in the industry structure and operations section of this chapter, to reduce their costs of operation and hold on to their existing markets, if not increase them. The proof of cost reduction is in increasing productivity and, as demonstrated by the indices shown in the graph (Figure 4.26), railway productivity has increased greatly in the past decade, especially since 1985, when the government's proposals for reforming transportation legislation were presented in "Freedom to Move". To put this into perspective, if the effects of capital investment are excluded, the railways would have needed about 31,000 more employees to carry their 1991 traffic at the 1985 level of labour productivity, . Assuming a conservative average cost of $40,000 per rail employee, this would have increased railway operating expenses by well over $1 billion, to be added to railway net loss before taxes in 1991 of $24 million. Alternatively, if the railways' 1985 traffic had been carried at 1991 levels of labour productivity, 28,000 fewer employees would have been required, again disregarding capital. Assuming a cost of $30,000 per employee, an additional $800 million in net income before taxes could have been realized by the railways.

CN Productivity

In October 1991 it was reported that, in an internal study comparing itself with seven major US Class I railways, representing 91 per cent of US Class I railway business, CN found that its work force managed to produce just slightly more than half the revenue tonne-kilometres per employee than the average of the US railways. This was in part due to the preponderance of general and administrative employees at CN, who accounted for almost one-third of the work force in contrast to just over one-fifth for the US railways. Furthermore, in 1990 over 45 per cent of each revenue dollar that CN earned went to meet payroll obligations compared to about 28 per cent for the average of the US railways in the study.

In their submissions to the Agency on the fourth Annual Review, the railways have acknowledged the importance of productivity improvements. CN stated "We will continue to improve the productivity of our operations and achieve better utilization of assets and the network". In a similar vein, CP Rail asserted "CP Rail continues its effort to adapt to competitive realities by restructuring its organization, streamlining operations, cutting costs, adopting new, more productive technology [and] upgrading the training of its workforce...". CP Rail also, in discussing the impact of revenues on investment, refers to "policy-induced constraints to railway cost reduction". From the tenor of their comments, Canadian railways are asking for continued encouragement and opportunity to improve their productivity for the sake of their customers and the economy in general.

Network Rationalization

Abandonment Activities

The *NTA, 1987* requires the Agency to report in the Annual Review on abandonment activities in the year under review and on the railways' planned abandonments for the current year. There are three main types of activity the

Agency deals with under the network rationalization program: new line abandonment applications (or reconsiderations), applications for review, and conveyance applications. Before any new abandonment application can be considered by the Agency, the railway must file a Notice of Intent to apply and wait 90 days before filing the application. In cases of previous applications where the Agency ordered the operation of the line continued, these must be reconsidered once every three years after receipt of an application. There are also instances when the Agency receives requests from interested parties to re-examine an Order it has issued previously and to vary or otherwise alter the original Order; such a request is usually filed in the form of an application for review. Lastly, to obtain approval to have a rail line conveyed to another interested party, the railway presently owning the line must file a written notice of the agreement to convey the line. Major conveyances cases during 1991 involved the approval of conveyances by CP Rail to the Central Western Railway Company, by CN to the Ontario Northland Commission and by CN to the Goderich-Exeter Railway Company. Another case involved a proposed conveyance by the Napierville Junction Railway Company to the Atlantic & North West Railway Company (CP Rail Limited) which the Agency approved in early 1992.

The legislation limits the annual amount of railway line that can be abandoned to four per cent of the total route mileage of each railway. The 1991 total route mileage for each railway represents the total route mileage that was supplied by the carrier as of December 31, 1987 with adjustments due to abandonments, conveyances and new line construction in 1988, 1989 and 1990. The percentage of total route miles authorized for abandonment for each railway in 1991 is determined by dividing the number of miles ordered abandoned effective in 1991 by the total route mileage of the railway as of January 1, 1991. Excluded from the four per cent calculation is the abandonment of lines forming part of the protected network in the Prairie Provinces. In 1991, CN and CP Rail had cases totalling 3.0 per cent and 2.2 per cent, respectively, of their total networks before the Agency for abandonment.

The Agency ordered CN to abandon 0.7 per cent of its total network effective in 1991 and, for 0.3 per cent, the effective date of abandonment was set in 1992 to give VIA Rail or affected shippers time to adjust to the new situation. Three cases, totalling 0.7 per cent, were ordered retained and one case, equalling 0.2 per cent, was dismissed. Another three cases, representing 0.3 per cent, were carried over into 1992 for a variety of reasons which included cases whose six month legislative deadline was beyond December 31, 1991. In one of these cases the Agency issued an Order and Decision in early 1992; in one case the Agency will be holding a public hearing; and in one case an Order and Decision may be issued in the first half of the year. Furthermore, CN was allowed to abandon 0.1 per cent of its network that was previously protected and therefore not subject to the four per cent limitation. Finally, Agency Orders for the abandonment of a further 0.7 per cent of CN's network were rescinded by the Governor-in-Council.

Over 400 miles of rail lines on three railways were ordered abandoned effective in 1991.

CP Rail had 2.2 per cent of its total network before the Agency for abandonment in 1991. The Agency ordered CP Rail to abandon 1.3 per cent of its network effective in 1991 and 0.1 per cent effective in 1992. In addition, CP Rail was allowed to abandon 0.6 per cent in 1991 and 0.2 per cent in 1992 of its network that was previously protected and not subject to the four per cent rule.

If the percentage of total route miles authorized for abandonment in 1991 had been based on the unprotected network rather than the total network, the percentage authorized for CN would have increased from 0.7 to 1.3 and for CP Rail from 1.3 to 2.8.

An overview of abandonment activities is supplied here and more detailed figures are reported in Appendices D.1 to D.5. As shown in Appendix D.1, there were a total of six Notices of Intent to apply to abandon lines in 1991; of these, three were followed by formal applications for abandonment during the year. Additionally, five applications were filed relating to Notices of Intent which had been submitted in 1990. The Agency authorized one application to be filed without a Notice of Intent. As indicated in Appendix D.2, the Agency received nine new applications for abandonment in 1991.

In total during 1991, the Agency had 39 active abandonment cases before it requiring decisions either within 1991, early 1992, or in some reconsideration cases, at a later date in 1992 and 1993. These included several requests for review of previous Orders, new applications filed in 1991, applications carried over from previous years and applications requiring reconsideration. Twenty-two cases involved CN lines, 16 were for CP Rail trackage and one case involved CSXT trackage. Appendix D.3 provides further details on the 39 abandonment cases and focuses on individual line segments. The focus on line segments is important because the Agency can group or subdivide line abandonment applications to ensure that any permitted abandonments take place in a manner which ensures rational improvements in network efficiency. One decision issued early in 1992 is reflected in Appendix D.3.

Decisions on all of the cases which were carried forward from 1990 were rendered in 1991. The Agency issued 25 Orders, as indicated in Appendix D.4, containing its decisions on 25 of the 39 cases listed in Appendix D.3. Of the remaining 14 active cases, three involve 1989 abandonment decisions which have been stayed; three involve new applications due for completion in 1992; four involve reconsiderations due for completion in 1992; one involves a reconsideration due in 1993; and three involve applications carried over into 1992 for a variety of reasons. Of the 14 cases carried forward, one had a decision released in early 1992.

Canadian railways plan to file new applications for rail abandonment in 1992 covering about 1,000 miles.

The Agency canvassed 14 railway companies as to their plans for rail line abandonment in 1992. As indicated in Appendix D.5, CN, CP Rail, CSXT and the Essex Terminal Railway Company (ETR) were the only companies to submit plans, while the others indicated that they would not be filing any applications in 1992. CN plans to file 21 applications covering 422 miles; CP Rail anticipates filing 24 applications covering 600 miles; CSXT plans to apply to abandon 6 miles of track; and, ETR may apply to abandon a short length of track in Windsor, Ontario.

Rationalization Issues

National Rail Network

The issue of defining an essential or national rail network for Canada, on which the Agency conducted some consultations with interested parties that were reported on in the 1988 Annual Review, remains of concern. In this regard, the Council of Ministers responsible for transportation initiated in September a study of a National Rail Network with, as main objectives: to develop criteria for identifying essential rail links, to find alternatives for identifying and responding to the impacts of rail rationalization and to evaluate the procedures currently used by the Agency in rationalization matters. The study is headed by the Transportation Association of Canada and is to be completed by September 1992.

Demarketing

Evidence has been presented to the Agency that CN has taken action to divert rail traffic from lines that are candidates for abandonment to intermodal service or to truck transport. These actions, called demarketing, have been opposed by interveners who contended that CN was creating an artificial uneconomic situation on the line in order to support the abandonment application. However, the question arises of whether, by promoting its intermodal service, a railway is demarketing or reacting to competitive pressures from other alternative modes of transport in order to retain customers.

Although interveners have expressed considerable criticism of demarketing, very few shippers have complained about the levels of rates or service provided by the railways through these alternative means. Often shippers have been reluctant to accept the abandonment of a branch line because they considered its loss a reduction of their bargaining leverage in negotiating future intermodal rates.

Transitional Funding

The *NTA, 1987* provides for transitional funding to enable shippers affected by a line abandonment to overcome obstacles in switching to another mode of transport.

Lack of transitional funding under section 175 of the NTA, 1987 continues to be a matter of great concern.

This section of the Act is administered by Transport Canada. It is a matter which continues to be of concern to the provinces, shippers and the railways that the transitional funding provisions have not been administered in the manner foreseen during the public consultation process. While Transport Canada has received a number of applications for such funding in the past four years, the section can only be activated where the Agency has determined that the line is required in the public interest and the Agency can only determine that a line is required in the public interest if the line is either presently economic or is presently uneconomic but has the potential to become economic in the foreseeable future. In such circumstances, it is counter productive to "subsidize" shippers, or others, to utilize non-rail transport. As a result only one application for transitional funding has been approved to date. In this particular instance, the application dealt with a line that had been ordered retained by the former Canadian Transport Commission. The transitional funding resulted in the abandonment of some three miles of track a few months before the Agency was required to reconsider the case.

Creation of Short Lines

The growth in the number of short line railways has not occurred as initially anticipated. CN and CP Rail have shown substantial interest in the conveyance of lines to short line railways under section 158 of the Act only since 1990. To date, this heightened interest has resulted in three conveyance agreements of any significance, only one of which has resulted in a new railway company being created.

The selectiveness of CN and CP Rail may result in fewer but more viable short line operations in Canada.

The initiative for organizing a conveyance lies with CN and CP Rail. They determine whether or not they will offer a line for sale, establish the bidding procedure and select the successful bidder. In selecting the successful bidder, both companies appear to consider the financial stability of the applicant, its ability to operate a railway, the viability of the company's business plan for operating the line and the ability of the applicant to cooperate with both the main line carriers and the shippers to the mutual benefit of all parties. Under the legislation, the purchase of a branch line may only be made by another railway company and the price offered for the line must be at least equal to the net salvage value of the line.

These requirements have posed a problem for most interested parties, including those already incorporated as railway companies. The net salvage value of the line, required in order to assist them in preparing their bid at the minimum required price, is not generally available. Furthermore, to date the parties interested in purchasing a line have not had access to sufficient funds to meet the minimum price requirement. Also, many parties interested in purchasing a line are not railway companies, are not certain of how to become one, and often have neither railway operating experience nor a viable business plan.

While the selectiveness of CN and CP Rail may be restricting new railway companies from acquiring railway lines, it also helps to ensure that only financially and operationally viable railway companies are entering the market.

Other Issues

As noted above, the *NTA, 1987* restricts the railway companies to abandoning a maximum of four per cent of their total route miles per year. This provision was enacted to address the concerns that large numbers of rail line abandonments would occur everywhere except in the Prairie provinces, where the majority of the rail network is protected from abandonment proceedings. The issue arising is that the four per cent abandonment limitation based on total route miles is still being applied mostly east of the Manitoba/Ontario border, as the majority of the rail network in western Canada remains "protected".

The abandonment of the operation of a line often raises concerns regarding the use of the abandoned right-of-way property in respect of existing VIA Rail passenger services, the establishment of future passenger services, the alternative uses to which it could be put, and the continued maintenance of the property while under railway ownership. The Royal Commission on National Passenger Transportation suggested in its Interim Report in Spring 1991 that the federal government review its policy on the disposition of rights-of-way so that the loss of rights-of-way for future passenger service can be averted. In the past year, the Governor-in-Council has rescinded two Agency abandonment orders involving lines over which VIA Rail operated. Other proposals for the use of abandoned rights-of-way include recreational hiking/biking/wilderness trails, corridors for provincial and municipal utilities and reclamation by adjacent landowners. Proponents of any of the above uses must negotiate directly with the railway companies in order to acquire the property.

Shipper and Carrier Assessments

Railways and many shippers support present or more streamlined rail rationalization procedures.

In 1991, the Agency's shippers survey solicited comments from shippers on the question of the Agency's rail rationalization process. A total of 54 rail users, small, medium and large, responded. Approximately half the respondents supported the present rationalization provisions in the legislation, about one-third wished for more liberal procedures and the remainder wanted a more restrictive process. Among the large shippers, who accounted for over half the respondents, about equal numbers supported the present procedures or promoted easier ones. None thought the abandonment procedures should be made more difficult for the railways. The majority of medium-size shippers, some 85 per cent, supported the present or more liberalized abandonment procedures. The small shippers accounted for 19 per cent of the respondents and half of them thought the procedures should be made more restrictive while 40 per cent of them thought the present ones were satisfactory. A comment made by one small manufacturer is: "not just the branch abandoned but the commodities and the people as well". Typical of comments from large rail users is: "In favour of streamlined process. Any reduction in cost base can only benefit companies and Canada".

Rail rationalization is an area where the railways and their largest customers are in broad agreement, as was established in the railways' submissions to the Agency. CN asserted that "further streamlining is warranted in the line abandonment process" while CP Rail identified "rail line rationalization procedures that constrain freedom to manage" as an issue to be addressed.

TRUCKING SERVICES

Highlights of 1991

Regulatory Environment

Federal and provincial initiatives sought to address the financial situation and competitive viability of Canadian carriers and owner-operators. The entry process was increasingly uniform across jurisdictions although standards governing extra-provincial trucking in Canada were still subject to some variations.

Structure and Operations

Carriers sought to deal with weak demand and excess capacity through mergers and consolidations and by downsizing and rationalizing operations. A significant number of closures and bankruptcies occurred among major carriers during 1991.

Competition and Rates

Shippers benefitted from strong rate competition in all market segments. The competitiveness of Canadian-based carriers in key transborder markets remained a contentious issue.

Financial Performance

Recessionary conditions contributed to a further deterioration in the financial performance of major carriers during 1991. The spread in the operating margin between Canadian and U.S.-based carriers continued to widen.

Regulatory Environment

The key preoccupation of the trucking industry in 1991 centred on dealing with the impact of the recession. Concerns regarding the regulatory process were clearly of secondary nature. This reflected, in part, the general prevalence of reduced entry controls and a greater degree of uniformity in application procedures among jurisdictions. Carriers were more familiar not only with the new regulatory framework but also with the way each jurisdiction applied the legislation. Overall, though, carriers had less involvement with the regulatory process. By 1991, carriers typically had already largely obtained the licences necessary for the coverage desired for their operations.

Application of the *MVTA*

In 1991, the number of applications for extra-provincial licences was 35 per cent lower than a year earlier.

The level of regulatory activity related to entry fell off sharply in 1991 compared to that of the previous three years. When compared to 1990, the number of applications in 1991 was about 35 per cent lower. The number of applications peaked in 1989 and has since been steadily decreasing. In 1991, there were proportionally fewer applications opposed under the reverse onus provisions and only one public interest hearing took place, compared to 17 a year earlier. Lower levels of demand for trucking services arising from a poor economic environment may also be a factor in the decline in the number of applications. The reduced level of applications also reflected a certain degree of saturation within the industry following several years of entry and expansion. Carrier expectations for open entry after 1992, contingent upon the repeal of reverse onus provisions as prescribed in the *MVTA*, may have deferred applications in some jurisdictions.

The lower level of opposition reflects a general perception among carriers that it was not feasible, in most jurisdictions, to successfully oppose applications on the grounds of detriment to the public interest. In jurisdictions such as British Columbia, Manitoba and New Brunswick, where applications for broad authorities were likely to generate protests on the part of already established carriers, the lower level of opposition reflects an increased tendency on the part of carriers to submit more restrictive applications. In these jurisdictions, applicants were more likely to limit the scope of their applications to the type of operation (e.g. truckload) and level of service (e.g. restricted to a specified number of shippers) and to come to terms with any opposition to their applications.

Regulatory/Legal Decisions

In the first three years under deregulation, a number of procedural and regulatory cases were heard by regulatory boards; questions relating to competition, impact on intra-provincial operations and potential for market abuse were raised during public hearings on applications and in court challenges to regulatory board decisions. A listing of regulatory and legal decisions rendered since 1988 is provided in Appendix E.1. There were no procedural questions heard by provincial boards during 1991 and most regulatory decisions rendered dealt with cases pending from the previous year.

In February 1991, the Manitoba Court of Appeal ruled in favour of an appeal by United Parcel Service Canada Ltd. (UPS) in regard to rate-related restrictions imposed by the Manitoba Highway Transport Board. Following a reconsideration of the matter at a hearing in June 1991, the Manitoba Board granted the UPS application, recognizing the need by UPS for pricing flexibility in order to compete in current market conditions. The issue that the continued business presence of UPS in Manitoba was predicated on unrestricted market access was also raised.

In British Columbia, decisions were rendered in regard to two extra-provincial applications for the hauling of vehicles that were opposed and subsequently considered at public hearings before the B.C. Motor Carrier Commission. One case was resolved during the hearing when the applicant and the objector came to an agreement on service limits; in a second case, the objector successfully argued the lack of demonstrated need for additional service and potential detriment arising from granting the licence in question.

National Task Force on Trucking Issues

In August 1990, the federal Minister of Transport established a Task Force (with representation from carriers, shippers, owner-operators, labour unions and provincial governments) to deal with questions regarding the competitiveness of the Canadian trucking industry.

In response to concerns regarding the lack of pertinent information to assess the issue of Canada/U.S. competitiveness, a series of studies were commissioned on the nature and composition of the transborder market, the operating cost structures of Canadian and U.S. carriers and respective tax regimes. The results of these studies (and of a similar undertaking by Ontario) are discussed later in the section on **Competition**.

In 1991, the federal government announced a financial assistance plan which included more favourable depreciation rates.

Following the release of the studies, in June 1991, the focus of the Task Force shifted from the question of transborder competitiveness to the overall viability of Canadian trucking firms and owner-operators. This ultimately led the Minister's Task Force to consider a number of proposals for short term financial assistance. In December 1991, a number of measures affecting various transportation modes were announced by the federal government. For trucking, two of the key measures involved fiscal concessions:

> **Capital Cost Allowance Adjustments.** Changes to tax depreciation rates were introduced to better reflect the useful life of transport equipment. Under the new depreciation rates, large trucks and tractors could be depreciated by 90 per cent of the original cost over five years instead of seven under the previous rules; by comparison U.S. power units can be depreciated to the same extent in three years. These changes nevertheless reduced by 50 per cent the difference between Canadian and U.S. depreciation schedules for power units. Over the long term, the tax benefit to the trucking industry of these changes is expected to be in the order of $15 million per year.
>
> **Federal Excise Tax Rebate.** A two year program offering partial rebates on federal fuel excise tax for diesel fuel purchases during 1991 and 1992. Through this program, trucking firms and owner-operators could obtain an immediate cash-flow benefit in one of two ways:
>
> - through a straight rebate of 1.5¢/litre on the 4¢/litre federal excise tax to a maximum of $500, or
> - through a loss offset option whereby the federal fuel excise tax is rebated at 3¢/litre in exchange for reductions to losses carried forward for income tax

purposes; under this option only those firms with losses for income tax purposes would benefit.

Other measures included start-up funding for the formation of an owner-operator buyer's cooperative. The intent was to improve the financial viability and competitiveness of owner-operators through reduced equipment and supply costs. Federal funding was also allocated to the Canadian Trucking Association for the establishment of a trucking institute to promote research and development focused on the needs of the trucking industry.

Industry concerns were also expressed, in the course of the National Task Force deliberations, on the effectiveness of the fitness test provisions of the legislation. Carrier representatives advocated a more stringent fitness test with increased safety provisions and a requirement for the applicant to submit a viable business plan. In response to these concerns and to industry claims that there were considerable variations in the application of the fitness criteria, the Canadian Council of Motor Transport Administrators (CCMTA) undertook a review of the elements and procedures in place in each jurisdiction. To be completed in 1992, this review is to focus on the safety aspects of the fitness test; economic or financial requirements of the fitness test are to be addressed by the Comprehensive Review of the *MVTA* and *NTA* legislation.

Task Force on Owner-Operators and Load Brokers

In the fall of 1990, a task force was established under the auspices of the CCMTA to examine problems related to load brokers, owner-operators' viability and owner-operator relations with carriers.

By the fall of 1991, based on recommendations of the task force, federal and provincial transport ministers agreed to increase business opportunities for owner-operators by allowing greater licensing flexibility, such as subcontracting with more than one carrier without having to re-register the vehicle. The task force was also further directed by the Council of Ministers Responsible for Transportation and Highway Safety to consult with industry in developing model contractual standards for owner-operator/carrier relations. Concerns were raised by both carriers and labour unions regarding these standards.

In regard to load brokers, there was agreement in principle to seek legislation for responsibility and disclosure requirements for load brokers in those areas where problems were identified. The Ontario government had already announced, in April 1991, its intention to require registration and bonding of Ontario-based load brokers.

Regulatory Developments

Despite an overall adjustment by carriers to the new regulatory environment, deteriorating economic conditions and instability in some sectors prompted carrier interest groups to lobby provincial authorities for a more interventionist role with respect to licensing activities.

In Manitoba, the provincial government responded to a request by the Manitoba Trucking Association for assistance in opposing less-than-truckload (LTL) extra-provincial applications. The government agreed that parties to applications should not "bear the full burden of substantial research to ascertain the effect of further licensing in order that the Board's findings related to the public interest test be soundly based". The University of Manitoba Transport Institute was subsequently appointed to inquire into and report to the Motor Transport Board and to assist it in an advisory capacity on extra-provincial applications.

Status of Intra-provincial Trucking Legislation

Jurisdiction	Entry test applied
Nfld	R/O[1], March 1991
N.S.	PC & N[2]
P.E.I.	R/O, May 1988
N.B.	R/O, January 1988
Québec	R/O, January 1988
Ontario	R/O, April 1989/ Moratorium April 1991
Manitoba	PC & N with some designated commodities
Sask.	PC & N with some ease-of-entry provisions
Alberta	Deregulated entry/ Fitness test January 1990
B.C.	PC & N
Yukon	R/O
N.W.T.	R/O, 1991

[1] Reverse Onus.
[2] Public Convenience and Necessity.

A number of provinces implemented legislation which reduced entry controls for intra-provincial operations; however, variations among Canadian jurisdictions persist as illustrated by the accompanying chart. In Ontario, variations with U.S. jurisdictions was also a contentious issue. A report by the Advisory Committee established by the Ontario Ministry of Transportation to examine the effectiveness of the provincial legislation noted that open entry in the intra-provincial Ontario market versus more restrictive intra-state entry controls in key adjoining U.S. states was a factor in the competitive disadvantage of Ontario-based carriers.

In response to concerns by Ontario carriers (regarding such elements as lack of reciprocity in key U.S. markets, overcapacity, operational and cost disparities), the Ontario Ministry of Transportation imposed a two-year moratorium on the issuance of intra-provincial licences. Major shippers' groups were, however, opposed to the moratorium given that it restricted market access. Carriers in jurisdictions which had deregulated entry objected to the inequity which the moratorium created. Overall, though, observers considered the impact of the moratorium to be marginal given that most carriers inclined to operate in the Ontario market likely had the necessary operating authorities; in addition, the prevailing conditions of reduced demand and excess capacity mitigated against any significant degree of new market entry.

Nevertheless, one significant implication of the moratorium is the reinstatement of licence transfers, a provision not previously contained in the Ontario motor carrier legislation. This change in policy by the Ontario government effectively ascribed an inherent monetary value to operating authorities, as illustrated by an advertisement in a trade publication for the sale of the intra-Ontario licences of an extra-provincial carrier in receivership.

Reverse Onus Provisions - Three Year *MVTA* Review

Under the reverse onus provision of the *MVTA*, a licence is to be issued to a fit applicant unless objectors to the licence can substantiate that issuing the licence would be detrimental to the public interest. The reverse onus provision of the *MVTA* was intended as a transition measure and would cease as of January 1, 1993 unless extended by the Minister of Transport. In the fall of 1991, Transport Canada undertook a review, as stipulated by the legislation, of the operation and effect of the reverse onus provision of the *MVTA*.

Transport Canada undertook a review of the reverse onus provisions of the legislation.

The review considered similarities and differences in the way jurisdictions developed and implemented the concept of reverse onus, reasons for granting and denying licences, restrictions and conditions placed on licences, nature of objections filed and procedures for handling them; the review was also to examine the impact of new regulatory procedures on the structure of the industry, nature of traffic and type of service.

Industry Structure

Structural changes in the trucking industry during 1991 reflected severe recessionary conditions.

In the first three years after the implementation of regulatory reforms (1988-1990), carriers sought to improve their competitive position and operational viability through broader market coverage, more balanced traffic flows and increased market share. These objectives were often realized by obtaining new or less restrictive operating authorities. By 1991, structural changes in the trucking industry reflected severe recessionary conditions which prevailed in virtually all sectors of the economy. Carrier strategies largely took the form of operational adjustments and consolidations to deal with lower level of demand and excess capacity. A substantial increase in market withdrawals (bankruptcies and closures), particularly among larger carriers, also took place.

Market Entry

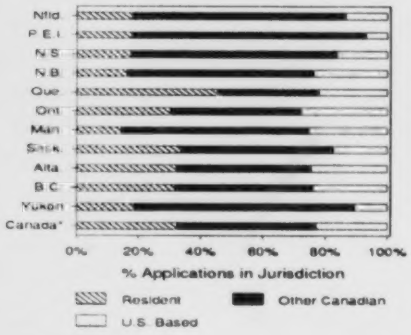
There were less than 5,900 applications for extra-provincial operating authorities received by provincial licensing authorities in 1991, compared to nearly 8,800 applications a year earlier. (Table 5.1) Ontario, where the number of applications declined by nearly 60 per cent over the previous year, accounted for almost 2,000 fewer applications; Newfoundland also showed substantial decreases in the number of reported applications.

TABLE 5.1
Number of Applications for Licence Authorities by Jurisdiction and Domicile of Applicants, 1990-1991

	Domicile of Applicants							
	Residents		Other Canadian Jurisdiction		U.S.		Total	
Jurisdiction	1990	1991	1990	1991	1990	1991	1990	1991
Nfld.	19	12	85	46	6	9	110	67
P.E.I.	24	18	101	77	8	7	133	102
N.S.	65	42	167	159	51	39	283	240
N.B.	73	46	254	206	68	71	395	323
Québec	618	658	630	475	397	320	1,645	1,453
Ontario	1,771	447	996	622	680	409	3,447	1,478
Manitoba	105	51	255	215	110	90	470	356
Sask.	201	181	417	268	130	94	748	543
Alberta	219	166	264	222	149	125	632	513
B.C.	310	234	359	329	188	176	857	739
Yukon	19	7	41	27	1	4	61	38
CANADA*	3,424	1,862	3,569	2,646	1,788	1,344	8,781	5,852

* Excluding N.W.T. for which Agency has received no statistics.

FIGURE 5.1
Domicile of Carriers
Applying for Licences in 1991



* Excluding N.W.T.

TABLE 5.2 U.S. Carriers Holding Operating Authorities in Canada	1989	1990	1991
Nfld.	14	20	27
P.E.I.	26	28	35
N.S.	65	116	111
N.B.	93	129	196
Québec	562	878	877
Ontario	736	1,362	2,066
Manitoba	331	407	457
Sask.	229	307	341
Alberta	427	478	559
B.C.	504	568	632
Yukon	N/A	10	22
TOTAL*	**2,987**	**4,303**	**5,323**

* Excluding N.W.T. for which Agency has received no statistics.

The distribution of applications by jurisdiction of domicile of the applicant provides an indication of the territorial and market expansion undertaken by carriers. About 32 per cent of the applications were submitted by carriers resident in the jurisdiction where the application was made while 44 per cent were by Canadian carriers based in other jurisdictions and 24 per cent by U.S.-based carriers. (Figure 5.1)

On a regional basis, the pattern is similar to that of the previous two years except in Ontario and Québec where significant shifts in the composition of applications took place. In Ontario, the proportion of applications accounted for by resident carriers dropped from 51 per cent in 1990 to less than 30 per cent in 1991. A reverse trend occurred in Québec where resident carriers increased their share of applications from 37 per cent in 1990 to 45 per cent in 1991.

Market Entry by U.S. Carriers

The number of applications for extra-provincial operating authorities by U.S.-based carriers declined about 25 per cent over 1990. Increases in the number of applications were nevertheless reported in three jurisdictions, New Brunswick, Newfoundland and the Yukon Territory. An agreement between the State of Montana and the province of Alberta, facilitating the transport of Alberta bulk commodities to an intermodal terminal in Montana, may have been a factor in applications by U.S. carriers in that jurisdiction. Despite a decrease of 40 per cent in the number of applications by U.S. carriers, Ontario still registered the highest number of applications (409) followed by Québec with 320. Decreases were reported in all other jurisdictions.

The number of U.S. carriers holding operating authorities increased in almost all jurisdictions; at the end of 1991, these totalled slightly over 5,300 up from about 4,300 in 1990 and 3,000 a year earlier. (Table 5.2) These figures show a steady increase in the entry of U.S carriers in the transborder market; it should be noted, though, that these figures overstate the actual number of U.S. carriers with Canadian licences allowing them to operate in the transborder market since a carrier could hold such a licence from a number of Canadian jurisdictions.

Structural Changes

Of the carriers consulted for the 1991 Review, (see Appendix E.2 for profile of carriers) only about one-third had applied for an extra-provincial licence, either domestic or transborder; this compares to over 80 per cent in 1988. This pattern, observed among a selected sample of trucking firms, is consistent with the trend emerging from the figures reported by licensing authorities over the same period. In the first two years following the enactment of the *MVTA*, there was a considerable degree of market expansion on the part of established carriers through the acquisition of new or expanded licences. By 1991, carriers largely had the necessary licences to operate in targeted markets. For many carriers the scope for further expansion was also limited by operational constraints, poor demand and market saturation.

The Agency's Motor Carrier Interview Program: 1988-1991

The Agency's interview program with carrier executives constitutes an important source of information on developments in the trucking sector. In 1988, NTA staff consulted with 107 predominantly extra-provincial carriers; this sample of carriers was considered to be fairly representative of the industry in terms of size, type of operation and regional base. In subsequent years, the sample was revised to adjust for structural changes (e.g., merger or bankruptcy) which would have precluded the continued participation of affected carriers. Over the period 1988-1991, a total of 160 different carriers participated in the Agency interview program; of that number, 66 were involved throughout the four years. The annual sample size was as follows:

Year	*1988*	*1989*	*1990*	*1991*
Carriers Consulted	107	132	126	105

In each of the years, the total revenues of the carriers retained in the sample base accounted for at least 40 per cent of the industry's total, ensuring that structural changes within the sample group could be considered representative of changes taking place within the industry.

Of the 160 carriers, 38 carriers (or close to 25 per cent) underwent some form of structural change. From 1988 to 1991, 17 carriers were either acquired or merged with another trucking firm; another 21 carriers (or major divisions of a carrier) either went into bankruptcy or otherwise ceased to operate. A regional distribution, by size, of the firms involved is presented below.

TABLE 5.3
An Indication of Structural Changes within the Trucking Industry: The NTA 1988-91 Carrier Review Universe

		Mergers/Acquisitions by Base of Acquiring or Principal Company		Bankruptcies/ Closures	
		Tractor Fleet of Acquired Firm		Tractor Fleet of Firm	
	Carrier Sample	Under 200	200 & Over	Under 200	200 & Over
Atlantic	30	3	–	1	1
Québec	25	2	–	1	–
Ontario	43	3	2	4	3
Manitoba	13	3	2	2	–
Saskatchewan	13	–	–	3	–
Alberta	19	1	1	1	–
British Columbia	17	–	–	5	–
	160	12	5	17	4

Canadian Trucking Industry, Key Structural Changes since 1988

1988	• Trimac acquires two U.S. bulk carriers • Route Canada closes • Armour purchases three Atlantic-based carriers • Cabano undergoes re-structuring
1989	• Federal acquires Tri-Line and Kingsway • Trimac buys U.S. tanker company • UPS obtains licences in Saskatchewan and B.C. • TNT closes Alltrans division
1990	• UPS gets licences in Manitoba and Atlantic Canada • Hendrie (Ont.) and Byers (Alta) sold • Canada Transport acquires J.E. Transport • Trimac acquires CP Bulk and Ryder Bulk (U.S.) • Cabano purchases Clarke Transport Routier
1991	• North Channel buys Lakehead • Thompson Transport closes Canadian operation • Federal seeks to sell trucking firms • Closure of Glengarry/Taggart/Big Wheels/Jumbo • Auto HaulAway acquires McCallum • SouthEast merged with Reimer's Big Freight • Imperial Roadways in receivership
1992	• Canada Transport's LTL division sold

Industry Developments

The trucking industry adjusted to declines in demand and excess capacity through consolidations, closures and widespread rationalization of operations.

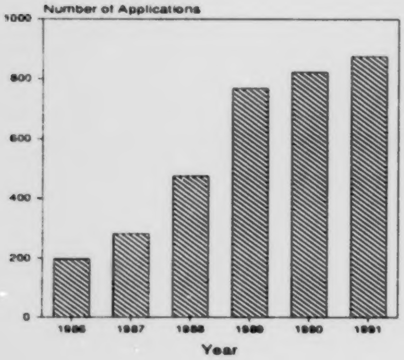
In virtually all sectors of the industry (general freight, truckload, less-than-truckload as well as bulk), there was very little entry of any significant scope. Prevailing forms of structural change involved rationalization of operations, downsizing of fleets and closures, though some market adjustments were brought about by consolidations.

Canada's largest trucking conglomerate, part of the Federal Transport Group, was put up for sale. The Reimer group acquired a 50 per cent interest in another Manitoba-based carrier, South East Transport and subsequently consolidated one of its divisions with that firm. In the specialty sector, Auto HaulAway, a vehicle carrier, expanded its fleet from 600 to 1,000 units through the purchase of McCallum Transport. Vitran, an Ontario-based holding company, acquired certain assets of Manitoba-based Imperial Roadways, which went into receivership in October 1991.

Lakehead Freightways, based in Thunder Bay, and operating LTL services in Ontario, Manitoba and Wisconsin, was purchased by the parent company of Manitoulin Transport , also based in northern Ontario. Meyers Transport, based in Peterborough, failed in an attempt to expand its market coverage by acquiring the assets of Taggart Transport, which went into receivership in May 1991. Clarke Transport Canada acquired Railfast from TNT, providing Clarke Transport with freight consolidation and rail freight forwarding capability across Canada.

Early in 1992, a significant redistribution of market share took place when Canada Transport entered into agreements to sell its LTL operations to Meyers Transport (for the eastern Ontario/Québec portion) and Manitoulin Transport (for the western Ontario operations). A summary of key industry developments since 1988 (presented above) illustrates the scope of structural change since the enactment of the new legislation.

FIGURE 5.2
ICC Applications By Canadian Carriers
1986–1991



Since 1988 (earlier in some cases), national and broadly based Canadian regional carriers have pursued, to varying degrees, a continental expansion by acquiring or establishing operations in the United States. In the carrier consultations conducted for the 1990 Review, seven of the 13 carriers operating over 500 tractors who were consulted indicated having acquired or expanded a base of operations in the United States. By comparison, there was no new acquisition among the larger carriers consulted in 1991. Expansions of previously established operations were also marginal, albeit with some notable exceptions among Ontario-based carriers who increased their U.S. operations significantly.

On an operational level, reduced entry controls in Canada have provided Canadian-based carriers with greater flexibility to combine domestic and transborder movements in triangular route patterns to compensate for traffic imbalances. Coupled with shifts in Canada-U.S. trade patterns, this has generated increased participation by Canadian-based carriers (particularly in western and Atlantic Canada) in the transborder market. The number of applications for U.S. Interstate Commerce Commission (ICC) authority by Canadian-based carriers in 1991 was more than four times that for 1986. (Figure 5.2)

Regional Spheres

Since the beginning of the Canada-U.S. trade talks, there has been considerable discussion on the possible shift from an east/west flow of traffic to a north/south one. While current data which would permit measurement of these shifts is not available, carrier route patterns point to the emergence of regional spheres of activity involving combinations of north/south and east/west movements in the operations of Canadian trucking firms.

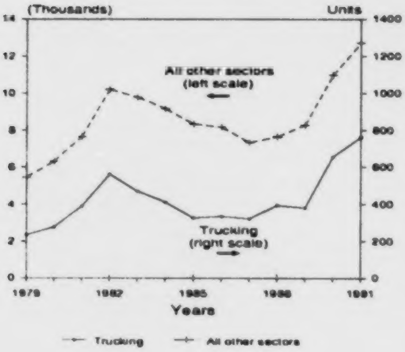
Regional spheres of activity have emerged involving triangular route patterns of north/south and east/west movements.

The regional spheres of activity have emerged partly as a result of market shifts and route patterns associated with increased trade with the United States, but mostly as a result of the triangular service patterns required to balance loads. Reduced entry controls in both Canada and the United States have permitted the necessary market access to facilitate the development of such route patterns.

With growth expected to take place mainly within these regional spheres of activity, the industry considers the emergence of any prominent national carriers to be unlikely. Instead, inter-carrier operational and marketing arrangements, such as that in existence between Reimer and Midland, will offer shippers a network of services on a national and even continental scale while limiting the market exposure of the individual carriers.

Market Exit

FIGURE 5.3
Bankruptcies Reported in Canada by Industry



Structural changes and operational adjustments (in the form of consolidations, mergers, closures and bankruptcies) contribute to reductions in the availability of carrier services. Data for the past 12 years indicates that the level of bankruptcies among trucking businesses closely parallels the overall bankruptcy level for all other sectors of the economy, comprising manufacturing, primary products, wholesale/retail trade, etc. (Figure 5.3) In 1991, reported bankruptcies for trucking businesses increased 16 per cent over 1990, the same rate of increase as the one for all other sectors.

Trucking bankruptcies more than doubled in Nova Scotia while significant increases were also reported in New Brunswick, British Columbia, Ontario and Alberta. The number of bankruptcies actually decreased in Québec and Saskatchewan while remaining stable in Manitoba. No trucking bankruptcies were reported in Yukon and Northwest Territories in 1991.

In 1991, bankruptcies in trucking increased at the same rate as total bankruptcies for all other sectors.

TABLE 5.4
Breakdown of 1990-91 Trucking Bankruptcies by Type of Activities

			Type of Activity Bankrupt Trucking Businesses					
	Trucking bankruptcies reported		Business with extra-provincial trucking licence		Business with other type of trucking licence (e.g. local)		Other type of trucking businesses*	
Jurisdiction	**1990**	**1991**	**1990**	**1991**	**1990**	**1991**	**1990**	**1991**
Nfld.	11	14	1	0	1	2	9	12
P.E.I.	1	1	0	0	1	0	0	1
N.S.	24	50	0	0	0	0	24	50
N.B.	21	33	0	0	1	0	20	33
Québec	142	108	17	28	18	8	107	72
Ontario	147	191	8	17	8	12	131	162
Manitoba	44	44	0	4	2	0	42	40
Sask.	46	32	3	2	13	0	30	30
Alberta	123	147	5	4	17	21	101	122
B.C.	95	143	5	10	6	7	84	126
Yukon	2	0	0	0	0	0	2	0
N.W.T.	0	0	0	0	0	0	0	0
TOTAL	**656**	**763**	**39**	**65**	**67**	**50**	**550**	**648**

* Includes businesses not requiring trucking licence and owner/lease-operators.

Most bankruptcies involved small, local operations...

However, though widely cited by industry observers, figures on bankruptcies in trucking (officially reported by the Office of the Superintendent of Bankruptcies) constitute an incomplete measure of the nature and scope of market exit from the industry. Firms in receivership, for example, are not included in bankruptcy figures. As well, the "trucking" designation used in the classification of the firm can encompass a broad range of activities including some where the "trucking" component may be ancillary to other operations, as in construction, farming or landscaping.

... but there was also a significant rise in bankruptcies among extra-provincial carriers during 1991.

Of the 763 trucking bankruptcies reported in 1991, 65 related to entities with extra-provincial operating authorities. This represents, nevertheless, a substantial increase over the 39 bankruptcies (out of a total of 656) in 1990 which were identified by provincial licensing authorities as trucking firms holding extra-provincial operating authorities. (Table 5.4)

On a regional basis, nearly 85 per cent of the bankruptcies reported for extra-provincial carriers occurred in Québec, Ontario and British Columbia. No bankruptcies among extra-provincial carriers were reported in any of the Atlantic provinces. Québec accounted for the highest number of extra-provincial bankruptcies while, in Ontario and British Columbia, 1991 figures were at least double those of the previous year. Manitoba, which did not report any bankruptcies of extra-provincial carriers during 1990, recorded four bankruptcies in 1991. In both years, though, most of the reported bankruptcies involved small enterprises providing services that were outside the scope of regulatory changes prescribed by the *MVTA*.

In 1991, more than 86 per cent of the bankruptcies involved trucking businesses with liabilities of less than $200,000, about the same proportion as in previous years. However, 13 firms reported liabilities of over $1 million; Québec, Ontario and Alberta each accounted for three of the said firms while Manitoba and British Columbia each accounted for two. Together these bankrupt firms represented over 39 per cent of the total liabilities reported for trucking business bankruptcies. In 1990, bankrupt firms with liabilities in excess of $1 million represented less than 20 per cent of total liabilities. Still, it should be noted that the level of liabilities reported for bankrupt businesses is not always a precise measure of the size of the bankrupt firm as demonstrated by the case of Transport Route Canada. In 1988 this firm, with terminals in every region, declared bankruptcy; despite the size of its operations, its officially reported liability figure was in the amount of $1.00. The corporate structure of a bankrupt firm (or other legal considerations) may affect the amount of liabilities reported. In 1991, Rempel Trail Transportation Ltd., a western- based bulk commodity carrier, and Taggart Transport, an Ontario-based LTL and truckload general freight carrier, were each reported bankrupt with liabilities of $1,001.

There were, in addition to officially reported bankruptcies among extra-provincial carriers (which included Canyon Distributors, an Alberta-based LTL carrier and Westrux, a B.C.-based truckload carrier), a number of important market withdrawals involving carriers who had filed for bankruptcy or were in receivership.

In central Canada, Glengarry Transport Ltd. ceased its LTL activities in Québec, Ontario and the United States in May 1991. In Atlantic Canada, Big Wheels Transport & Leasing of P.E.I., a general freight and specialty carrier with a fleet of over 200 tractors, ceased operations in September 1991. Jumbo Transport, an Ontario-based carrier operating in central and eastern Canada and the United States, also went into receivership in September 1991. In western Canada, Imperial Roadways, a Manitoba-based LTL carrier, went into receivership in October 1991.

Finally, another indicator of market withdrawal can be found in the number of licence cancellations. Notwithstanding variations in renewal requirements and the administrative accounting of licence cancellations among jurisdictions, figures reported by provincial and territorial licensing authorities show that licence cancellations more than doubled from 571 in 1990 to 1,414 in 1991. The majority of these were for insurance cancellations.

Shippers' Perspective on Structural Change

Concerns were expressed by shippers on the impact of closures and consolidations in the trucking industry.

Shippers have generally been satisfied with the level and quality of available trucking services since entry controls were relaxed in 1988. However, increased concern was expressed in 1991 on the impact of closures and consolidations, particularly in regard to the availability of reliable trucking services in some regional LTL and specialty markets. With respect to transborder services, some shippers indicated shifting traffic to U.S.-based carriers because of service limitations or perceived financial instability among domestic carriers.

Of shippers using trucking services, 58 per cent (up from about 50 per cent a year earlier) reported that some of the for-hire carriers which they used prior to 1988 were no longer in the industry in 1991. At the same time, the proportion of shippers reporting the use of new entrants decreased to 9 per cent in 1991 from about 19 per cent in 1990.

While shippers were sensitive to issues of adequate compensation within the trucking industry, access to competitive services was nevertheless considered of paramount importance. To this effect, shippers groups were generally opposed to government measures restricting entry or competition (e.g. the Ontario moratorium).

Competition

By facilitating market entry, regulatory reforms in extra-provincial trucking were expected to generate increased competition in the industry. In their responses to the Agency's annual survey, shippers indicated that competition increased mainly in international and inter-provincial services; increased competition was also reported in the local and intra-provincial markets, but to a lesser extent. (Figure 5.4) This observation applies for both truckload and LTL services, although the increase in the level of competition was somewhat lower for LTL. This is illustrated by the fact that 44 per cent of international truckload users indicated more competition compared to 31 per cent in the LTL segment.

FIGURE 5.4
Shippers Reporting More Carriers Competing for their Traffic (By Market Segment) – 1991

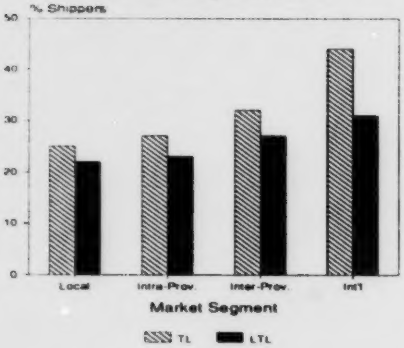
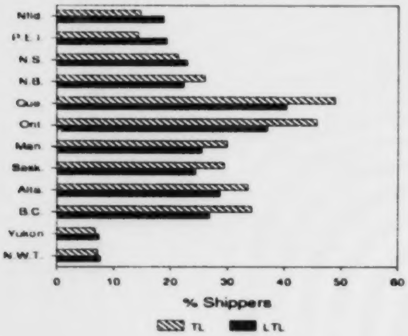


TABLE 5.5
Shippers Reporting More Carriers Competing for their Traffic by Market Segment 1988 - 1991

	1988	1989	1990	1991
		% of shippers		
Truckload				
Local	20	25	30	25
Intra-Provincial	34	30	35	27
Inter-Provincial	37	38	42	32
Transborder	44	33	46	44
LTL				
Local	21	23	27	22
Intra-Provincial	28	25	31	23
Inter-Provincial	33	31	35	27
Transborder	37	31	35	31

Since 1988, the proportion of shippers reporting increases in the level of competition shows a consistent pattern across the different market segments (i.e., lowest for local and intra-provincial, highest for inter-provincial and transborder). From 1988 to 1990, the proportion of shippers reporting more competition rose steadily; this development is in line with the level of entry into the trucking industry, and the degree of territorial and market expansion by carriers that was occurring during that period. In 1991, however, there was a significant drop across virtually all sectors in the share of shippers indicating increased competition for their traffic. (Table 5.5)

FIGURE 5.5
Shippers Reporting More Carriers Competing for Their Traffic (Inter-Prov. Services) – 1991



Domestic

Shippers Perspective

On a regional basis, competition in the truckload segment has, since 1988, been consistently more prevalent in central Canada; in 1991, nearly half the shippers in Québec and Ontario reported increases in the number of carriers competing for their freight business (Figure 5.5). In all regions, though, the proportion of shippers reporting more competition declined in 1991 relative to the previous year: from 30 per cent to 25 per cent in the Atlantic region and from 40 per cent to 30 per cent in the western provinces. For the territories, about 8 per cent of shippers reported more competition in 1991 compared to about 20 per cent a year earlier.

For LTL services, the regional pattern closely paralleled that for truckload operations. Since 1988, the proportion of shippers indicating more competition in LTL services has typically been lower than for truckload services. In 1991, however, a relatively higher proportion of shippers in Newfoundland, P.E.I. and Nova Scotia reported more competition in LTL than in truckload.

A comparison of the 1990 and 1991 results shows a significant decline in the proportion of shippers reporting more carrier competition. This decline was observed for all sizes of shippers and for both truckload and LTL, with the exception of large LTL shippers, for which the level of competition remained unchanged. (Table 5.6) At the same time, the proportion of shippers reporting fewer carriers competing for their traffic was considerably higher in 1991 compared to the previous year, in some cases triple. Shippers reporting decreased competition were mainly medium and large shippers.

TABLE 5.6
Change in Number of Carriers Competing for Shippers Traffic by Size of Freight Bill - Inter-Provincial

Sector/Size of Shipper Freight Bill	Increase		No Change		Decrease	
	1990	1991	1990	1991	1990	1991
			% of shippers			
Truckload						
Under $1 million	45	35	48	55	6	13
$1 - $10 million	40	37	52	48	8	15
Over $10 million	43	27	52	54	5	19
LTL						
Under $1 million	40	31	53	56	7	13
$1 - $10 million	36	26	57	52	7	21
Over $10 million	22	23	66	60	12	17

The pattern reflected in shippers' assessments of changes in the level of competition is consistent with operational and structural adjustments arising within the trucking industry during 1991 as a result of the decline in demand and level of excess capacity. Shippers noted being affected by mergers and closures among trucking firms, while carriers reported abandoning certain markets or operations. The changes in the level of competition, particularly among larger shippers, may also be the result of shippers' decisions to allocate traffic among fewer carriers, thus leading to more competition amongst remaining carriers.

Carriers' Perspective

Most carriers considered the level of competition in inter-provincial services to be excessive.

Most carriers consulted for the 1991 Review considered the level of competition to be "excessive", though carrier assessments varied in relation to sector of operation (intra versus inter-provincial). About 90 per cent of carriers reported an excessive level of competition in inter-provincial services, up from 80 per cent the previous year.

In the intra-provincial sector, this figure increased only marginally from 67 to 68 per cent; on a regional basis, the lower proportions of excessive carrier assessments and the year over year changes (only Ontario and Alberta show an upward trend) point to a greater degree of stability. For inter-provincial operations, the proportion of carriers reporting the level of competition to be excessive rose in all regions with the exception of carriers based in Saskatchewan. (Table 5.7)

TABLE 5.7
Carriers Reporting Excessive Level of Competition by Sector

	Intra-Provincial		Inter-Provincial	
	1990	1991	1990	1991
	% responding carriers			
Atlantic	65	60	83	100
Québec	87	80	93	94
Ontario	65	80	77	85
Manitoba	57	57	91	100
Saskatchewan	78	66	86	75
Alberta	42	55	50	64
British Columbia	75	62	75	100

While most carriers providing inter-provincial services considered competition in that segment to be excessive, the level of competition appears to be rising more slowly. The proportion of carriers reporting increases in the level of competition declined from 82 per cent in 1989 to less than two-thirds in 1991. (Table 5.8) This pattern was consistent across all regions. Over the three year period, the western provinces had the lowest proportions of carriers reporting increases in the number of carriers with which they competed. The relatively high level of competition observed for 1989 reflects the degree of expansion in market coverage which occurred with new or broader licences. During 1990 and 1991, weakening demand and excess capacity forced rationalization of operations.

TABLE 5.8
Carriers Reporting an Increase in Competition

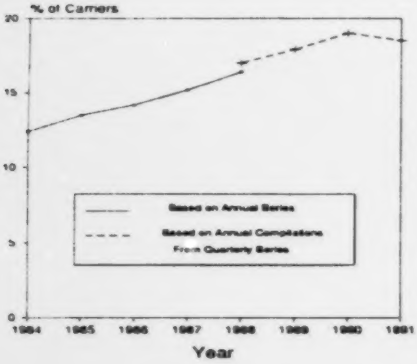
	Intra-provincial			Inter-provincial		
	1989	1990	1991	1989	1990	1991
	% of responding carriers					
Atlantic	71	62	53	92	79	68
Central	88	69	59	92	73	68
Western	52	39	33	71	60	52
Total	**71**	**60**	**48**	**82**	**70**	**64**

The trend with respect to intra-provincial operations shows a similar decline from 1989 to 1991 across all regions. Proportions of carriers reporting increased competition in intra-provincial operations are consistently lower in all years and in all regions relative to inter-provincial operations.

Transborder

The relative contribution of transborder services to Canadian carriers' total revenues provides an indication of the importance of this segment to their operations. The share of operating revenues generated by transborder services has increased steadily from about 12 per cent in 1984 to almost 20 per cent in 1990, dropping slightly in 1991. (Figure 5.6) Carriers consulted for the Review indicated that withdrawals from the transborder market, shifts of operations to a U.S. base, or traffic losses to U.S. competitors were factors that contributed to this decline.

FIGURE 5.6
Transborder Revenues as a Proportion of Total Revenues - Canadian Carriers

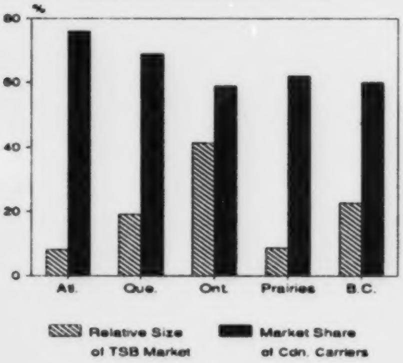


The competitiveness of Canadian carriers in the transborder market, relative to U.S.-based trucking firms, has been the focus of numerous studies and discussions among industry and government, particularly in 1990 and 1991. Under the *MVTA*, reduced entry controls also applied to the transborder market. Under the new entry provisions, U.S.-based carriers (from small regional operators to large national carriers) gained greater access to the Canadian transborder traffic; Canadian carriers had obtained easier access to the U.S. transborder market with U.S. trucking reforms enacted in 1980. Entry data (presented in the section on **Industry Structure**) shows a significant number of applications for operating authorities submitted by U.S.-based carriers, particularly in 1989 and 1990. By 1991, the number of U.S.-based carriers with licences to operate between the United States and a Canadian province was over 5,300, up from less than 3,000 carriers two years earlier. The rapid increase in the value of the Canadian dollar from 1987 onwards, relative to U.S. currency, may have been a factor in the number of U.S. carriers targeting the transborder market. But the increase in the relative value of the Canadian dollar also affected the ability of Canadian carriers to meet strong rate competition from U.S. carriers.

Within this environment, structural imbalances arising from differences in the Canadian and U.S. taxation regimes, and their impact on the competitive position of Canadian carriers vis-à-vis their U.S. counterparts, emerged as a highly contentious issue.

Transborder Studies

FIGURE 5.7
Transborder Trucking Market:
Regional Distribution and
Canadian Market Share – 1991



A market survey held at Canada-U.S. border points (as one of the studies commissioned for the Minister's National Task Force on Trucking Issues) estimated the Canadian carrier share of transborder activity at about 63 per cent. On a regional basis, this share was lowest (59 per cent) in Ontario - the market which accounts for nearly half the national transborder total; in other regions, Canadian carrier share ranged from 60 per cent in British Columbia to 76 per cent in the Atlantic provinces. (Figure 5.7) Canadian carriers' actual revenue share of the transborder market may vary from these estimates as the survey was designed to measure activity at border crossings; as such, it does not take into account factors affecting the allocation of revenue such as interlining or the length of haul (particularly the portion within the United States, which can be potentially much greater than that within Canada where major markets are located very close to the border).

Another Task Force study compared trucking costs on each side of the border. The study determined that, at the exchange rate of $0.85 US, Canadian carriers had costs that were 3 to 11 per cent higher than comparable U.S. carriers, depending on size, segment and region of operation. The most significant cost differentials were observed in Ontario, Manitoba and Québec, where differences were 7 to 11 per cent in favour of U.S. carriers.

Studies on transborder trucking found U.S. carriers to have lower operating costs - in some cases up to 20 per cent less than Canadian carriers.

The Task Force study on cabotage found no evidence to support the perception of widespread violation of cabotage rules by U.S. carriers. However, ambiguities and inconsistencies in customs and immigration regulations on both sides of the border were deemed to cause confusion among carriers and enforcement agencies. A public notice was issued in January 1991 by Revenue Canada-Customs and Excise to clarify the policy concerning incidental and repositioning moves in Canada.

Finally, a Task Force study on the comparison of tax burden between Canada and the United States documented a number of tax variations among key jurisdictions involved in transborder traffic. Overall the study concluded that U.S. carriers enjoyed a very marginal tax advantage. The issue of disparities between Canada and the United States on depreciation rates was nevertheless pursued by the Department of Finance and the National Task Force. Adjustments to the Capital Cost Allowance rates were announced in December 1991. These changes permit a Canadian carrier to depreciate power units (large trucks and tractors) to 90 per cent over a five year period instead of the previous seven years; U.S. tax rules allow a comparable depreciation of power units over a three year period.

Factors specifically affecting the competitive position of Ontario-based carriers in the transborder market were also considered in a study commissioned by the Ontario Ministry of Transportation. Based on feedback from users of transborder services, the study determined that Ontario-based carriers typically offered less competitive rates, generally used older equipment compared to U.S. competitors, and suffered from poorer management infrastructure. Given the importance of rates and performance in the selection of carriers, the study concluded that Ontario carriers were at a significant disadvantage in competing for transborder traffic.

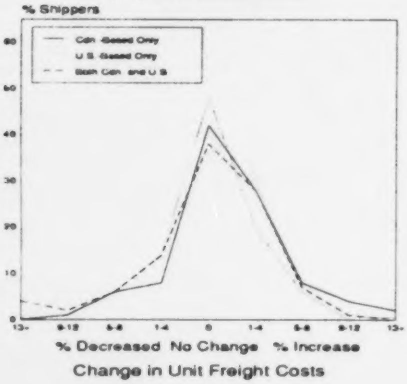
The analyses contained in the Ontario study on input unit costs and productivity, based on comparable Canadian and U.S.-based carriers, showed an operating cost differential in the order of seven to 12 per cent in favour of U.S. carriers. However, the study points out that "much of the current concern of competitiveness ...revolves around the ability of smaller, more unionized Ontario carriers to match the cost structure of larger, less unionized U.S. carriers." In this context, the study concluded that higher input costs (mainly equipment, maintenance and fuel) combined with higher wage rates and overall lower equipment utilization resulted in variable operating costs for Ontario carriers that were 20 per cent higher than for the U.S. carrier.

Shippers' Perspective

Shippers' assessments of the changes in the level of competition prevailing in transborder operations displayed regional variations similar to those noted for inter-provincial activities. The highest proportions of shippers reporting increased competition were located in Ontario, Québec, Alberta and British Columbia. Higher proportions of shippers indicated increased competition for truckload freight than for LTL traffic. In terms of shippers' size, there were relatively fewer truckload shippers, both small and large, reporting increased competition in 1991 than a year earlier. In LTL, 32 per cent of shippers surveyed indicated that there had been more carriers competing for their traffic.

Irrespective of carrier used (U.S.-based, Canadian based or a combination of Canadian and U.S.-based) most shippers reported no change in average unit costs in 1991 relative to 1990, in both truckload and LTL. There were, however, some discernable differences in the pattern of rate changes depending on the type of carrier used. Of truckload shippers using U.S.-based carriers, 26 per cent reported rate increases compared to 42 per cent for shippers using Canadian-based carriers. (Figure 5.8)

FIGURE 5.8
Changes in International
TL Unit Freight Costs 1991/90
by Type of Carrier Used



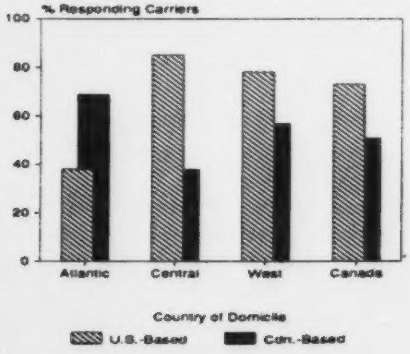
Carriers' Perspective

In assessing change in the level of competition prevailing in the transborder market, the proportion of carriers reporting that competition had increased in their respective areas of operation declined from 86 per cent in 1990 to less than 70 per cent in 1991. There were variations in these assessments according to the nature of the carrier's operation; for example, all liquid bulk carriers consulted indicated that competition had increased.

On a regional basis, the proportion of carriers reporting an increase in the number of competing carriers remained about the same in the western region; in the Atlantic and central regions, however, it dropped substantially. Though carriers have noted that the influx of new competitors may have slowed, competition has remained very intense due to declining demand and strong rate competition from U.S. carriers. To this effect, nearly nine in ten carriers consulted considered the level of competition to be excessive.

U.S.-based carriers were considered the source of increased competition by 73 per cent of carriers consulted, while 50 per cent of carriers indicated that increased competition had resulted from the activities of Canadian carriers. In Atlantic Canada, the source of increased transborder competition came mainly from Canadian carriers while in the central and western regions increased competition was generated primarily by U.S.-based carriers. (Figure 5.9)

FIGURE 5.9
Source of Increase in
Competition for Canadian Carriers in
the Transborder Market During 1991



Carrier assessments on the source of competition over the period 1988-1991, show a significant increase in U.S. competition beginning in 1989, particularly in the central region; this coincides with the year in which Ontario resumed processing of applications under the *MVTA* following delays resulting from court challenges in 1988. By contrast, the impact of increased competition from U.S. carriers in the western region emerged more gradually over a three year period. (Table 5.9) In 1991, nearly 60 per cent of carriers consulted for the Review indicated a loss of business to U.S. competitors while only six per cent reported an overall gain in traffic from U.S. carriers, a pattern similar to the previous year. Substantial losses in transborder traffic (particularly in longhaul markets) were reported by several Québec-based carriers.

TABLE 5.9
Carriers Reporting an Increase in Level of Competition from U.S. Carriers in the Transborder Market

	1988	1989	1990	1991
		% of responding carriers		
Atlantic	33	20	44	38
Central	73	93	85	85
Western	50	60	82	78
Total	**60**	**65**	**76**	**73**

Logistical imbalances in the transborder market also affect the competitive position of Canadian-based carriers. The relative proximity of a major portion of the Canadian general freight market to the United States allows U.S. carriers to operate transborder services largely as an extension of broader domestic markets.

For Canadian-based carriers, long distance penetration into the United States significantly increases the potential for empty miles on the return portion. Canadian carriers have taken measures to counteract this problem by establishing bases in the United States or by entering into feeder agreements with U.S. carriers. The transborder studies also noted the importance of triangulation in the transborder operations of Canadian carriers. Triangular route patterns have been increasingly used, particularly by carriers in Atlantic and western Canada. These carriers are competing with carriers from Ontario and Québec, as well as with U.S.-based carriers, for northbound loads to central Canada. For carriers based in Ontario and Québec, this puts additional pressure on their ability to balance southbound loads, already subjected to strong competition from U.S.-based carriers.

Of carriers with transborder operations that were consulted for the 1991 Review, about half indicated having interline arrangements with U.S. carriers during 1991. This proportion was largely unchanged from 1990, and was fairly constant across all regions. Nearly 75 per cent of LTL carriers reported interline arrangements compared to about 40 per cent in truckload. Interlining continued to be more prevalent among larger carriers.

Private Carriers

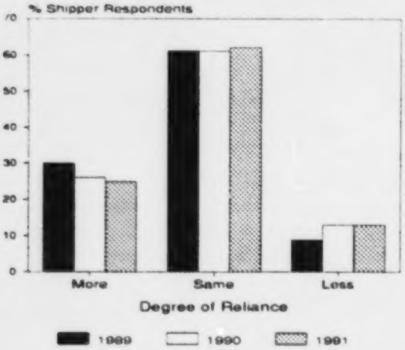
Some shippers have shifted traffic from their own fleets to for-hire carriers.

Improved services and highly competitive rates available from for-hire carriers have prompted some shippers operating private truck fleets to re-assess their freight costs and practices. Increased levels of competition, from both domestic and global sources, throughout all sectors of the economy have forced shippers to focus on strategies for improving their competitiveness. In light of the conditions prevailing in a deregulated trucking environment, some shippers have attempted to lower their transportation costs by shifting traffic from their own fleet to for-hire carriers. Rationalization of shipper operations and distribution requirements on a continental level has also emerged as a factor in selecting private or for-hire services. A prominent example during 1991 is that of the abandonment by B.F. Goodrich of its private fleet, both in Canada and in the United States, in favour of a partnership arrangement with Schneider National Inc.

TABLE 5.10
Percentage of Shippers Indicating a Change in their Company's Truck Fleet of Owned/Leased Transportation Equipment

	1988	1989	1990	1991
		% of shippers		
Increase	21	20	16	14
Same	75	74	71	74
Decrease	4	6	13	12

FIGURE 5.10
Shipper's Degree of Reliance on their Private Fleet for Transportation Requirements



Based on information from the Shippers' Survey, a number of shippers (with annual freight bills ranging from less than $1 million to over $100 million) reported having discontinued operation of company-owned fleets; in some instances a private fleet was retained only for local delivery. Since the implementation of regulatory reforms in 1988, the proportion of shippers reporting usage of their own truck fleet for all or part of their traffic requirements has decreased from 48 per cent to 39 per cent. For nearly two-thirds of these shippers, the degree of reliance on their fleet has remained stable over the past three years; about one-quarter indicated relying more on their fleet in 1991. (Figure 5.10) Of shippers owning or leasing transportation equipment, about 14 per cent indicated having increased their fleet complement in 1991, down from over 20 per cent in 1988; by comparison, 12 per cent reported a decrease in fleet size during 1991, three times the proportion in 1988. (Table 5.10)

While some shippers have cited the cost of compliance with new safety standards as a factor in curtailing their involvement in private trucking, other shippers have improved productivity in their private fleet through better balancing of traffic loads by offering for-hire services to other shippers. One large shipper noted having "filled empty back-hauls with $2 million of former common carrier revenue". About half of the shippers who owned or leased a private fleet of trucks reported having obtained an extra-provincial licence by 1991.

In assessing the degree of competition from private carriers, the majority of for-hire carriers did not foresee any detrimental long-term impact arising from the activities of private carriers due to the already highly competitive nature of the for-hire segment of the industry.

Shippers' Reactions to Rate Increases

Shippers' reactions to rate increases proposed by carriers were solicited through the Agency's shippers' survey; shippers were invited to indicate action(s) taken or results achieved from a list of possible measures provided in the survey questionnaire.

TABLE 5.11
Shippers' Reactions to Rate Increases

	Truckload				LTL			
	1988	**1989**	**1990**	**1991**	**1988**	**1989**	**1990**	**1991**
% of shippers								
Successfully Negotiated a Reduction in the Increase	52	49	50	56	45	41	45	51
Adjusted the Price of Goods Accordingly	13	14	17	13	13	15	17	15
Absorbed the Increase	18	23	33	24	25	29	39	34
Switched to Other Trucking Firm	25	32	31	33	26	28	25	30
Switched to Other Mode of Transport	3	3	5	4	1	3	3	2

Most truckload shippers negotiated reductions in proposed rate increases.

Over the four years since deregulation, the prevailing outcome to proposed rate increases was, for both truckload and LTL shippers, to successfully negotiate a reduction. In 1988, 52 per cent of truckload users reported having reduced proposed rate increases; this proportion declined to 50 per cent in the next two years and subsequently increased back to 56 per cent in 1991. (Table 5.11) The pattern suggests a strong scope for negotiating down rate increases consistent with market entry and competition levels in 1988 followed by certain curtailment during 1989 and 1990 in light of carriers' efforts to stem rate deterioration. The higher level in 1991 reflects the impact of weak demand and excess capacity.

The incidence of negotiated rate reductions was consistently higher among truckload rather than LTL users; by contrast, LTL shippers were more inclined to absorb the proposed increase. In 1990, though, the jump in the proportion of shippers, both truckload and LTL, that reported absorbing the increase in rates was likely due to the imposition of a fuel surcharge.

In the four years since deregulation, another prominent reaction by shippers to a rate increase proposal by a carrier has been to shift to another trucking firm. In 1988, faced with a proposed rate increase, one-quarter of truckload users indicated that they had switched to another carrier. In each of the next three years, almost one in three shippers resorted to such measures, indicating a sustained level of competition within the industry.

TABLE 5.12
Shipper Reactions by Size of Shipper Freight Bill -1991

	Truckload			LTL		
	Under $1M	$1-$10M	Over $10M	Under $1M	$1-$10M	Over $10M
			% of shippers			
Successfully Negotiated a Reduction in the Increase	45	65	67	41	60	69
Adjusted the Price of Goods Accordingly	12	15	11	19	11	9
Absorbed the Increase	27	22	27	37	33	28
Switched to Other Trucking Firm	37	31	28	33	29	21
Switched to Other Mode of Transport	1	7	6	2	3	2

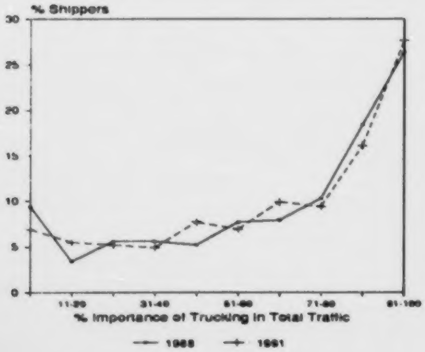
In reacting to proposed rate increases, larger shippers (annual freight bills over $10 million) have been more successful in negotiating a reduction in the increase than were smaller shippers (annual freight bill under $1 million). In 1991, almost 70 per cent of larger shippers using LTL services reported having negotiated a reduction compared to about 40 per cent for smaller shippers; comparable differences also apply to truckload users. (Table 5.12) However, smaller shippers reported a higher incidence of switching traffic to other trucking firms when faced with rate increases. There appeared to be some scope for medium and larger truckload shippers to shift traffic to another mode, though the use of this option was relatively marginal.

Traffic and Rates

Traffic

During 1991, demand for trucking services was severely affected by weak economic conditions.

FIGURE 5.11
Relative Share of Trucking in Shippers' Total Traffic



The weak performance of the Canadian economy had a major impact on the demand for trucking services during 1991. Traffic levels within the different segments of the trucking industry were affected by the overall situation prevailing in key sectors (e.g. forest products, manufacturing, petroleum, automobiles). Operational and structural changes implemented by both shippers and carriers also had an impact on the relative market position of carriers within various segments of the trucking industry.

Shippers' Perspective

The Agency's annual shippers' survey has provided, since 1988, information on the level and nature of demand for transport services. The vast majority of respondents (over 95 per cent each year) reported being users of trucking services. The relative distribution in the level of demand among truck users has changed only marginally in the four years since the implementation of regulatory reforms. (Figure 5.11) In 1988 as well as in 1991, more than one-quarter of shippers indicated using trucking services for over 90 per cent of their total traffic. Fewer than one-tenth of the shippers were marginal users (i.e. users for which trucking accounted for 10 per cent or less of their transportation requirements).

FIGURE 5.12
Changes Reported in Shippers' Traffic Volumes, 1991

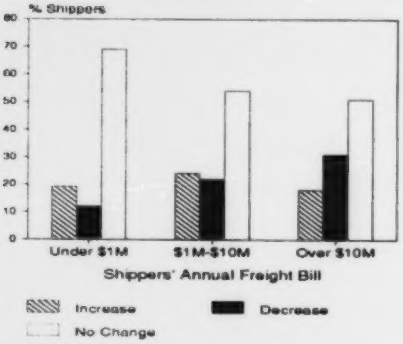


TABLE 5.13
Volume of Freight Shipped by Truck - Changes Reported by Shippers

Change in Volume of Freight Moved by Truck	1988	1989	1990	1991
	% of shippers			
Increase	38	30	24	21
No Change	56	63	61	61
Decrease	6	7	15	18

While the majority of shippers continued to report no change in the level of demand for trucking services, the proportion of shippers reporting increases in demand in 1991 was nearly half that of 1988. (Table 5.13) At the same time the proportion of shippers reporting decreases in traffic tripled from 1988 to 1991. The impact of these reductions in demand was significant given that decreases in traffic were reported more frequently among larger shippers. In 1991, over 30 per cent of shippers with annual freight bills in excess of $10 million reported decreases, compared to about 12 per cent for shippers with freight bills under $1 million. (Figure 5.12)

Carriers' Perspective

Given the downturn of the economy, most carriers consulted for the 1991 Review indicated having experienced decreases in traffic volumes. Loss of interline traffic, as well as curtailment of marginal or non-profitable operations, also contributed to lower traffic volumes among carriers from all regions. Carriers' strategies to retain traffic volume and market share varied in function of their degree of market exposure, their cost structure, and their sector of activity. A number of carriers were able to maintain traffic volumes, at previous year levels, by better management and balancing of traffic lanes. In some cases, shifts by shippers to competing carriers were offset by new traffic due to bankruptcies or closures of competing carriers. Some gains were also reported as a result of mergers or appropriation of traffic previously handled by private carriers.

Truckload

In domestic truckload operations, close to half of the carriers consulted for the Agency's Review reported decreases of five per cent or more in their traffic volumes. While general freight was strongly affected by declines in the manufacturing sector, cutbacks in various resource and industrial sectors resulted in substantial drops in the hauling of heavy equipment (flat bed operations). By comparison, about one out of every four carriers reported having increased its traffic by at least five per cent. In the transborder sector, about 43 per cent of carriers reported decreases in traffic of five per cent or more, while about one-third benefitted from increases of the same order. In both the domestic and transborder markets, regional differences were quite pronounced.

TABLE 5.14
TL Carriers Shipment Volumes - Changes in 1991 over 1990

Change in Shipment Volumes	Atlantic	Central	Western
		% of responding carriers	
Domestic market			
Increase	45	13	27
No Change	32	22	26
Decrease	23	65	47
Transborder market			
Increase	61	17	35
No Change	31	21	27
Decrease	8	62	38

Among carriers providing domestic services, nearly two-thirds of the carriers based in central Canada reported decreases compared to about 23 per cent in the Atlantic region and 47 per cent in the western provinces. (Table 5.14)

In transborder services, factors affecting traffic levels included the on-going realignment of services undertaken to face changes in market demand, shifts in operations to U.S. bases, and competition from U.S. carriers. In the Atlantic region, nearly two-thirds of the carriers consulted reported increases in traffic, with relatively few reporting decreases. By contrast, nearly two-thirds of the carriers based in central Canada reported losses in traffic. In the western region, increased market penetration by U.S. carriers was cited as a factor explaining traffic losses.

Less-than-truckload (LTL)

Decreases in traffic volumes were reported by 40 per cent of carriers providing domestic LTL services. Regionally, declines were more pronounced in central Canada where over half of the carriers reported decreases in freight volumes. (Table 5.15) Carriers indicating increases were based primarily in the Atlantic and western regions.

TABLE 5.15
LTL Carriers Shipment Volumes - Changes in 1991 over 1990

Change in Shipment Volumes	Atlantic	Central	Western
		% of responding carriers	
Domestic market			
Increase	30	12	28
No Change	40	36	44
Decrease	30	52	28
Transborder market			
Increase	50	13	38
No Change	33	31	25
Decrease	17	56	37

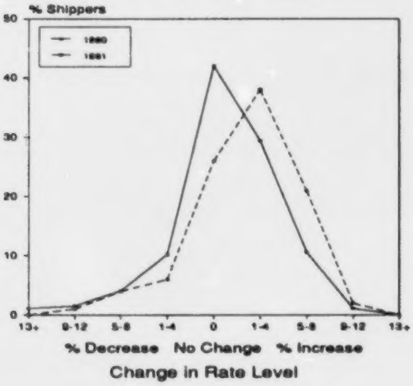
Increases were slightly more prevalent among carriers offering transborder LTL services (about 27 per cent). Regional patterns were generally consistent with those relating to truckload operations. Increases were reported among carriers based in the Atlantic and western regions, while a majority of carriers in central Canada reported decreases, predominantly in Quebec.

In terms of carrier size, the proportion of smaller carriers (i.e. operating less than 100 highway tractors) reporting increases in truckload traffic was nearly three times that for larger carriers (with over 200 tractors) in domestic as well as transborder operations. Smaller carriers reporting gains were almost all from the western and Atlantic regions. By comparison, traffic gains in LTL services, in both domestic and transborder operations, were more prevalent among larger carriers than among smaller ones. (Table 5.16)

TABLE 5.16
Percentage of Carriers Reporting Traffic Gains - 1991 vs. 1990

Segment of the Trucking Industry	Number of Tractors in Carriers' Fleet: Under 100		100 - 200		Over 200	
	1990	1991	1990	1991	1990	1991
Domestic Truckload	32	30	25	28	23	11
Domestic LTL	31	21	14	11	50	27
Transborder Truckload	29	52	27	18	22	18
Transborder LTL	37	14	25	40	42	36

FIGURE 5.13
Changes in Domestic TL Rate Levels Reported by Shippers



Traffic gains in domestic truckload and LTL were typically at the expense of other Canadian carriers. Market share gains often arose as a result of the closure or acquisition of a competitor. In the transborder market, traffic increases typically involved expansion of operations or marketing of new services by the carrier.

Rates

Truckload

Rate changes during 1991 were highly influenced by the weak demand and excess capacity which prevailed throughout the industry. The results of the shippers' survey show that users of domestic truckload services generally benefitted from overall better rate conditions in 1991 than in 1990 (Figure 5.13). The proportion of shippers reporting no change in unit freight costs increased from 26 per cent in 1990, to 42 per cent in 1991. And whereas almost two-thirds of shippers reported rate increases in 1990, the corresponding figure for 1991 was down to 41 per cent.

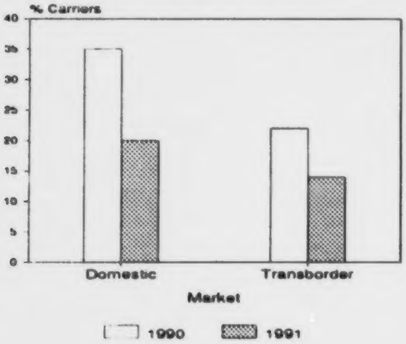
Rate increases were less prevalent during 1991.

A similar pattern is evident for users of transborder truckload services, with the proportion of shippers reporting rate increases declining from 59 per cent in 1990 to 36 per cent in 1991. (Table 5.17) Where increases were reported, these were predominantly in the order of one to four per cent.

TABLE 5.17
Unit Freight Cost Changes in Truckload Services Reported by Shippers

	Domestic		Transborder	
	1990	1991	1990	1991
Rate Changes	*% of shippers*			
Increase				
13% +	0	0	0	0
9 - 12%	2	1	3	1
5 - 8%	22	11	20	9
1 - 4%	38	29	36	26
No Change	26	42	27	44
Decrease				
1 - 4%	6	10	6	10
5 - 8%	4	4	4	6
9 - 12%	1	2	2	2
13% +	1	1	2	2

FIGURE 5.14
Carriers Reporting Increases in TL Average Unit Revenue



From the carriers' perspective, rate changes are assessed in terms of average unit revenue, a measure which takes into account key factors such as payload level, distance and traffic mix. Despite its sensitivity to shifts in traffic patterns and market served, this measure is considered a good indication of overall trends in carriers' rates.

The patterns emerging from information supplied by carriers are consistent with those emanating from the findings of the shippers' survey. The proportion of domestic truckload carriers reporting unit revenue increases dropped from 35 per cent in 1990 to 20 per cent in 1991 (Figure 5.14). Decreases in average unit revenue were reported by over half the domestic truckload carriers, compared with about 31 per cent a year earlier. Rate competition remained strong in the transborder truckload sector, with only 14 per cent of carriers reporting increases in average unit revenue. (See Appendix E.3 for distribution of changes).

Less-than-Truckload (LTL)

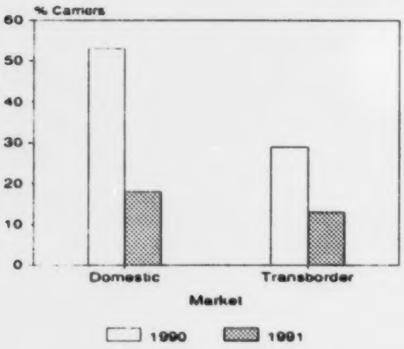
The LTL sector, by virtue of its cost structure, nature of service and more limited number of carriers, has generally been less subject to rate competition than the truckload sector. In 1991, however, changes in unit freight costs for LTL shippers showed a pattern similar to that observed for truckload services.

TABLE 5.18
Unit Freight Cost Changes in LTL Services Reported by Shippers

	Domestic		Transborder	
	1990	1991	1990	1991
Rates Changes	*% of shippers*			
Increase				
13% +	1	0	1	0
9 - 12%	3	1	4	2
5 - 8%	35	22	28	17
1 - 4%	34	35	33	29
No Change	19	28	25	37
Decrease				
1 - 4%	3	8	4	7
5 - 8%	4	3	3	5
9 - 12%	0	1	1	1
13% +	1	2	1	2

In 1990, nearly three-quarters of domestic LTL shippers reported rate increases; in 1991, that proportion dropped to below 60 per cent. (Table 5.18) For transborder services, the decline was of comparable magnitude. However, while the shift in 1991 was towards no increases in rates for LTL services, the proportion of shippers reporting increases was still much higher, and the incidence of rate decreases considerably lower than among users of truckload services.

FIGURE 5.15
Carriers Reporting Increases in LTL Average Unit Revenue



Since 1988, carriers have generally reported a stable rate structure for the LTL sector. In 1991, however, carriers signalled a significant reduction in average unit revenues. This was due in part to increased rate competition, but mostly to declines in traffic volumes. Demand for LTL services declined as a result of poor economic conditions and as a result of increasing competition from truckload operators offering shippers lower rates through load consolidations.

In domestic LTL services, the proportion of carriers reporting increases in average unit revenue declined from over 50 per cent in 1990 to less than 20 per cent in 1991; likewise in the transborder sector, the proportion of carriers reporting increases dropped to 13 per cent in 1991 from almost 30 per cent a year earlier. (Figure 5.15) More than 40 per cent of carriers operating domestic services and nearly two-thirds of carriers in the transborder sector reported decreases in average unit revenue in excess of five per cent. (See Appendix E.4)

Level of Competition versus Rates

The level of competition has had a significant influence on rate changes, particularly in the truckload sector. In both 1989 and 1990, the proportion of shippers reporting rate increases was considerably lower under conditions of increased competition than in a situation of less competition. (Table 5.19) This tendency prevailed in both the domestic and transborder sectors.

TABLE 5.19
Impact of Change in Level of Competition on Shippers Unit Freight Costs

Number of trucking firms competing for shippers' traffic	TL 1989	TL 1990	TL 1991	LTL 1989	LTL 1990	LTL 1991
	% of shippers with increased unit costs					
Domestic						
Less	70	75	53	74	82	59
No Change	54	62	50	72	74	71
More	45	59	39	71	69	58
Transborder						
Less	67	88	31	83	89	47
No Change	43	55	43	61	68	59
More	33	54	31	54	56	51

Competition among carriers has intensified given weak demand and excess capacity in the industry.

The results for 1991, however, show a marked departure from the trend observed in previous years. The proportion of shippers reporting increases in unit freight costs, under conditions of less competition, dropped substantially. This pattern suggests that, despite fewer carriers competing for a shippers' traffic, the competition between carriers has intensified with the weak demand for trucking services and the resulting level of excess capacity in the industry. The pattern also reflects the outcome of some shippers' strategies to reduce administrative and freight costs by allocating their traffic to fewer carriers, using intermediaries, or shifting traffic from in-house fleets to lower cost, for-hire carriers.

A similar pattern is also manifested in the results from LTL shippers and is particularly noticeable in transborder services where, despite less competition, fewer than half the shippers reported increased rates compared to almost 90 per cent a year earlier.

Rate Changes and Shippers' Size

Overall there were no significant variations, relative to size, in the proportion of shippers reporting rate increases. There were, however, marked differences by shipper size when considering the magnitude of the rate changes.

In domestic truckload services, 18 per cent of smaller shippers (annual freight bills under $1 million) reported average increases in unit freight costs in excess of five per cent, compared to four per cent of larger shippers (with annual freight bills in excess of $10 million). For LTL shippers, the pattern is similar though the respective proportions are greater. (Figure 5.16)

FIGURE 5.16
Change in Unit Freight Costs
Reported by Shippers,
Inter-Provincial Services
1991 Over 1990

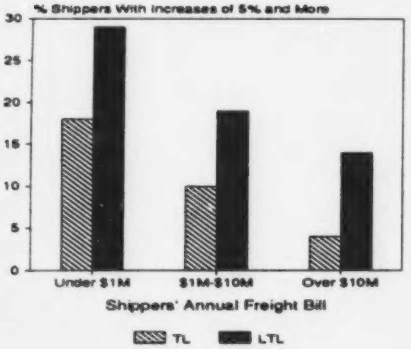


TABLE 5.20
Change in Shippers Unit Freight Costs by Shipper Size

	Domestic			International		
	1989	1990	1991	1989	1990	1991
	% shippers reporting increases of 5% or more					
Truckload						
Under $1M	27	33	18	21	35	13
$1M-$10M	15	21	10	14	20	12
Over $10M	10	12	4	10	12	4
LTL						
Under $1M	34	45	29	27	39	21
$1M-$10M	32	34	19	32	32	21
Over $10M	22	30	14	27	17	9

The extent of the impact of the overall economic environment prevailing in 1991 on rate levels stands out in a comparison with the results of the two previous years. (Table 5.20) While rate increases were generally less prevalent among larger shippers in each of the three years, the actual proportion of shippers reporting rate increases of five per cent or more dropped substantially from 1990 to 1991. This occurred in all size classes, in truckload as well as LTL, and for both domestic and transborder operations. While results for 1990 may reflect, in part, the application of a fuel surcharge during that year, the reduction in the proportion of shippers reporting increases are still significant when comparing 1991 with 1989.

Trucking Operations

Impact of Regulatory Reform

Shippers' Perspective - 1991

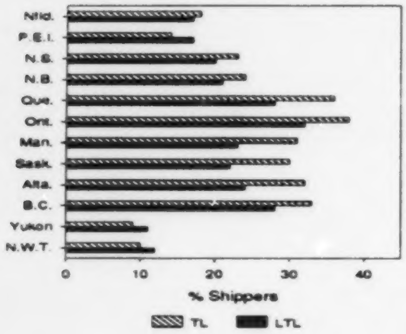
Overall in 1991, shippers' assessments of the impact of reduced entry controls in extra-provincial trucking (based on such elements as availability of carriers, rates and quality of service) continued to be generally favourable across all regions in respect to both truckload and LTL services. Negative assessments were reported by respondents to the Agency's shippers' survey in less than four per cent of all cases. (Table 5.21) Within the context of a weak economy, carriers were generally regarded as being responsive to market conditions; however, in light of weak demand, excess capacity and strong rate competition, concerns were expressed by some major shippers on the potential for service deterioration that could arise from undisciplined discounting and financial instability within the trucking industry.

TABLE 5.21
Impact of Regulatory Reform on Shippers: 1989-1991

Shippers' Assessment	1989		1990		1991	
	TL	LTL	TL	LTL	TL	LTL
	% of shippers					
Positive	25	20	28	23	29	24
No Impact	72	76	69	74	67	74
Negative	3	4	3	3	4	3

Legend: TL - Truckload
LTL - Less than truckload

FIGURE 5.17
Proportion of Shippers Reporting a Positive Impact of Reduced Entry Controls – 1991



On a regional basis, reduced entry controls were considered to have a positive result by about 40 per cent of truckload shippers in Ontario and Québec, close to 30 per cent in western provinces and about 20 per cent in Atlantic Canada. (Figure 5.17) In comparison to 1990, however, the proportion of shippers reporting a positive assessment dropped in both Québec and Ontario. Based on shippers' comments, some of this shift in shippers' assessments can likely be attributed to disruptions arising from truck blockades during 1991. Factors related to "quality of service" also contributed to marginal increases in negative assessments in a number of provinces.

In terms of shipper size, the proportion of truckload shippers reporting a positive assessment was slightly higher among larger shippers. About 35 per cent of larger shippers (with annual freight charges exceeding $10 million) assessed the impact of regulatory reform on their company to be positive, compared to 21 per cent for smaller shippers (less than $1 million freight bill). There was a similar pattern in assessment by size group among users of LTL services.

Shippers continued to view the impact of regulatory reforms as positive...

Since the enactment of the *MVTA* in 1988, shippers state that they have benefitted from better services, wider carrier selection and lower rates. Overall, throughout the period there was little unfavourable reaction to reduced regulatory controls. The Canadian Industrial Transportation League commentary that "deregulation has had positive impact by reducing transportation costs and increasing efficiency of service" reflects a prevailing shipper view. The proportion of shippers reporting that the impact of regulatory changes had been negative did not exceed four per cent in any province, in respect to either truckload or LTL services, in any of the four years of the Review.

In 1988, one out of every three shippers reported the impact of regulatory reforms to be positive; but one-third of shippers also considered then that it was too early to assess the impact. After declining in 1989, the proportion of shippers who considered the impact to be positive steadily increased from 1989 to 1991, remaining consistently higher among truckload users than among users of LTL services.

... but concerns were expressed on the potential for service deterioration.

In profiling shippers who considered the impact to be positive in terms of the importance of their annual freight bill, larger truckload shippers (annual freight bill over $10 million) were more inclined to view the impact as positive. The assessment of users of LTL services was less subject to variations relative to the importance of the annual freight bill. By 1991, however, the proportion of larger LTL shippers for which the impact was positive was twice that for smaller shippers (32 per cent versus 17 per cent). (Table 5.22)

TABLE 5.22
Impact of Regulatory Reform on Shippers

	1989		1990		1991	
	TL	LTL	TL	LTL	TL	LTL
	% of shippers reporting positive assessment by size of freight bill					
Under $1M	18	17	25	23	21	17
$1 - $10M	26	22	28	23	33	29
Over $10M	37	29	31	22	35	32

Legend: TL - Truckload
LTL - Less than truckload

Impact on Trucking Activities

Reduced entry controls allowed carriers to improve operational efficiencies.

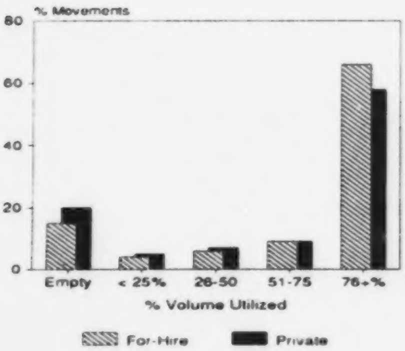
Carriers generally considered that reduced entry controls have provided for improved operational efficiencies by allowing them to broaden the scope of their operations and by removing restrictions on the coverage of their services. The ability to measure changes in the scope of carriers operations with traditional data sources is somewhat limited. In 1991, the CCMTA conducted a National Roadside Survey which was designed to measure, among other things, the degree of market penetration relative to a carrier's base of operation. The survey targeted inter-provincial traffic. Intra-provincial movements were excluded; movements to/from the U.S. were not excluded but, by virtue of survey site locations, accounted for only four per cent of the more than 20,000 movements surveyed.

TABLE 5.23
CCMTA National Roadside Survey: Province/Territory of Carrier Base by Jurisdiction of Survey

		Percentage Distribution of Movements by Carrier Base												
Jurisdiction of Survey	Number of Movements Surveyed	Nfld	N.S.	P.E.I.	N.B.	Qué.	Ont.	Man.	Sask.	Alta.	B.C.	Yukon	NWT	USA
Nfld	494	**44**	24	3	12	10	4	–	–	–	–	–	–	1
N.S.	2,098	2	**28**	5	48	6	6	–	–	1	–	–	–	3
P.E.I.	378	–	12	**44**	30	4	3	–	–	1	–	–	–	6
N.B.	1,011	1	9	4	**41**	25	18	–	–	1	–	–	–	1
Qué.	4,853	–	2	1	10	**34**	44	1	–	1	–	–	–	5
Ont.	3,280	–	1	–	2	32	**40**	15	1	3	2	–	–	4
Man.	1,360	–	–	–	1	1	10	**41**	18	19	6	–	–	4
Sask.	1,634	–	–	–	–	–	8	37	**19**	27	5	–	–	3
Alta	1,655	–	–	–	–	1	7	18	15	**45**	8	–	1	6
B.C.	2,801	–	–	–	–	–	6	13	5	49	**23**	–	–	7
Yukon	358	–	–	–	–	–	1	1	–	24	12	**54**	2	7
N.W.T.	100	–	–	–	–	–	–	–	–	74	–	–	**25**	1

The results of the National Roadside Survey, presented in Table 5.23, illustrate the degree of market penetration by mid-1991; the shaded areas show the proportion of movements for resident carriers in each jurisdiction. In each province and territory, except Yukon, the majority of movements covered by the survey involved carriers for which the principal base of operation was in another jurisdiction. The extent of market penetration from carriers based in adjoining jurisdictions varied considerably by region. In Nova Scotia, for example, 28 per cent of the movements surveyed involved resident carriers while 48 per cent of the movements were attributed to carriers based in New Brunswick, with the remainder distributed among a number of other jurisdictions. Similarly, in British Columbia, nearly half of the surveyed movements involved carriers based in Alberta; in Saskatchewan, less than 20 per cent of the movements involved resident carriers. By comparison, the share of movements attributed to resident carriers was considerably higher in jurisdictions such as New Brunswick, Ontario, Manitoba and Alberta.

FIGURE 5.18
Capacity Utilization
by Carrier Type
CCMTA's Survey 1991



The CCMTA National Roadside Survey results constitute a useful source of information for the fourth year of the transition into a deregulated environment. But other sources must be considered to allow for an assessment over time. Information on distances travelled are reported by carriers to the jurisdiction where vehicles are registered. This data, which is used to pro-rate and remit registration fees among jurisdictions, can also serve as an indicator of market penetration. An initiative is under way within CCMTA to make greater use of this data to measure changes in industry capacity levels and carriers' scope of operations.

Reduced entry controls were also considered to have generated operational efficiencies through more balanced payloads and less empty backhauls. The results of the CCMTA National Roadside survey provide an indication of the degree of capacity utilization within the industry in 1991. Overall, fewer than 16 per cent of movements were reported as "empty". In terms of type of operation, private carriers showed a slightly higher proportion of "empty" movements (about 20 per cent) than for-hire carriers (about 15 per cent). At the other end of the spectrum, nearly two-thirds of for-hire carriers reported full or nearly full loads (i.e. over 75 per cent capacity utilization). (Figure 5.18)

Comparable figures are not available on a national level for the period prior to the implementation of regulatory reforms. However, it is possible to obtain an indication of changes in operational efficiency by examining the results of roadside surveys conducted periodically by provincial authorities, such as the one conducted in 1988 in Ontario. In 1988, about 17 per cent of inter-provincial movements surveyed by Ontario authorities were reported to be empty. This is about the same overall rate shown by the CCMTA results for movements surveyed at Ontario inter-provincial boundary points in 1991. From 1988 to 1991, the degree of empty haul for Ontario interprovincial movements appears to have remained relatively unchanged despite reported reductions in traffic volumes and a considerable increase in market access.

TABLE 5.24
Empty Haul by Carrier Activity

	LTL/TL		TL		Specialized	
	1990	1991	1990	1991	1990	1991
	% of responding carriers					
Percentage of Empty Haul						
Under 9%	52	39	33	38	13	0
10-18%	37	39	31	24	0	31
Over 19%	12	23	36	38	87	69

Legend: LTL - Less than truckload
TL - Truckload

Information provided by carriers on percentage of empty haul also provides an indication of changes in operating efficiency from 1988 to 1991. Most carriers consulted for the 1990 Review reported that empty haul had declined or at least remained close to the 1988 level. In 1991, however, a number of carriers reported that a drop in available traffic affected their loaded averages. In 1990, more than half the carriers consulted, providing LTL/truckload general freight services, indicated their rate of empty haul to be under 10 per cent; in 1991 the corresponding proportion of carriers had dropped to less than four out of ten. (Table 5.24) At the same time, the proportion of carriers reporting a rate of over 19 per cent empty haul in 1991 was double that of a year earlier. The proportion of empty haul among carriers providing mainly truckload services remained relatively stable over these two years.

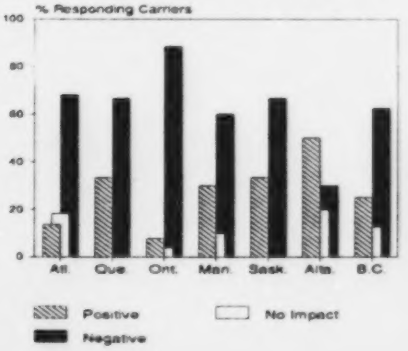
Carriers' Perspective

In 1991, most carriers continued to view the impact of regulatory reform as negative.

Despite greater market flexibility and potential for improved efficiencies, over two-thirds of the carriers consulted for the 1991 Review considered the overall impact of regulatory reforms to be generally negative. Carriers' prevailing negative assessments were related to some of the operational and structural changes which accompanied regulatory reform (increased capacity and competition in the market place, reduced rates and profit margins). However, institutional and economic factors also figured prominently in carriers' negative assessment. The administrative costs associated with continued disparities in industry standards and enforcement practices between jurisdictions were deemed to have eroded some of the potential benefits arising from regulatory reforms. In the key transborder markets (Ontario, Québec, British Columbia) operating cost differentials with U.S.-based competitors affected the market viability of some Canadian-based carriers in the face of strong rate competition.

Carriers' assessments varied by region and by type of operation. In Ontario, close to 90 per cent of carriers consulted indicated that regulatory reforms had a negative impact on their operations. Feedback from Ontario-based carriers related to the effects of reductions in demand arising from substantial declines in output in key industrial sectors (auto parts, steel, forest products and manufacturing). Operating cost differentials, relative to U.S.-based competitors, continued to erode market position of Ontario-based carriers. By contrast, less than one-third of Alberta-based carriers indicated a negative assessment. In all other regions, about two-thirds of carriers consulted considered the overall impact of changes in market entry controls to have been negative. (Figure 5.19)

FIGURE 5.19
Carrier's Assessment in 1991 of the Impact of Regulatory Reform on their Company



In terms of type of operation, negative assessments were most prevalent among carriers providing general freight truckload services. More than three-quarters of carriers operating in this sector viewed the impact of regulatory reforms as unfavourable, due mainly to the level of entry and rate competition. Negative assessments were less prominent among carriers providing LTL services (about two-thirds) while fewer than half of specialized carriers (e.g. bulk, auto carriers, etc.) considered the impact to be negative.

Carriers' Perspective - Four Year Assessment, 1988-1991

Greater market access and increased efficiency were seen as positive elements of regulatory reform...

In the first two years following the implementation of the *MVTA*, carriers' reactions largely focused on variations among jurisdictions in entry procedures and in the interpretation and implementation of the legislation. This assessment resulted from the procedural hearings and legal challenges to board decisions which occurred in 1988 and 1989. By 1990, there was a greater degree of uniformity in the entry process, coupled with a certain adjustment by industry to the regulatory environment prevailing in respective jurisdictions. Carriers' concerns shifted to questions of viability relative to the level of competition, excess capacity, economic conditions and fiscal policies; the regulatory framework was often viewed in terms of costs associated with jurisdictional disparities in operating standards and enforcement levels.

... while excess capacity, structural imbalances and excessive rate competition were perceived as negative results.

Greater market access and operational efficiencies that resulted from reduced entry controls were generally perceived as positive elements of the new regulatory framework. However, the excess capacity situation prevailing in the industry, excessive rate competition and operating cost differentials relative to U.S. carriers, were key negative elements that carriers ascribed to regulatory reform.

Carrier assessments over the four year period reflect changes in the regulatory framework and operating conditions within the industry. The extent of changes affecting the industry are reflected in the steady decrease in carriers reporting that regulatory reforms had "no impact" on their operations, from 17 per cent in 1988 to nine per cent in 1991. (Table 5.25) Similarly, the proportion of carriers indicating that the impact had been "positive" decreased from about one-third to less than one-quarter over the same period; increased competition, a recession which had significant impact on industry sectors using trucking services, and generally more difficult operating conditions, were often cited as factors in carrier assessments.

TABLE 5.25
Impact of Regulatory Reform: Carriers' Assessment, 1988-1991

Impact of Reform	1988	1989	1990	1991
		% of responding carriers		
Positive	31	27	25	23
No Impact	17	17	11	9
Negative	52	56	65	68

Despite jurisdictional disparities, smaller and medium sized carriers generally indicated having benefitted from broader operations. Regional general freight and commodity carriers, particularly those based in Atlantic and western Canada, gained access to expanded markets both domestically and in the United States. However, as medium sized carriers began to deal with broader market exposure and increased competition, the proportion of carriers reporting a negative impact increased to the level of the larger carriers. By 1991, about two-thirds of the carriers operating under 200 tractors assessed the impact to be negative, compared to about three-quarters for carriers over 200 tractors. (Table 5.26)

TABLE 5.26
Impact of Regulatory Reform:
Carriers Reporting Negative Assessment: 1988-1991

Number of tractors	1988	1989	1990	1991
		% of carriers by fleet size		
Under 50	39	43	82	65
50 - 99	40	64	81	67
100 - 199	75	60	76	67
200 - 499	53	59	83	78
500 +	75	83	83	75

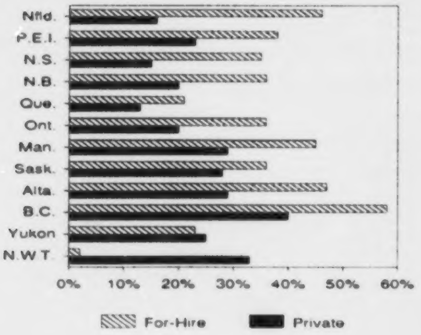
Although most of the larger carriers (500 or more highway tractors) expanded the geographical scope of their operations in the first years after deregulation, this group predominantly viewed the effects of regulatory changes to be negative. Being broadly based, key factors for larger carriers were variations in the application and enforcement of safety regulations and in operating standards among jurisdictions. While subject to increased competition from established carriers, as well as new market entrants, most large carriers maintained their relative market positions; to do so, they underwent major organizational adjustments that involved mergers, partial closures and other forms of operational rationalization, such as shifts of operations to the United States.

While the regional base of carriers has remained a significant element governing regulatory compliance, it has become less important as a determining factor in assessing impact as the scope of carriers' operations encompassed a greater range of jurisdictions. Still, a regional dimension stands out in the case of some carrier assessments. In Alberta, where intra-provincial trucking had been deregulated prior to the 1988 federal reforms, carriers consulted consistently reported the lowest levels of negative impact. By comparison, Ontario-based carriers, which traditionally benefitted from the largest domestic and transborder market, were subject to strong competition from both domestic and U.S. carriers; Ontario-based carriers typically had the highest proportion of negative assessments in each of the four years. In Manitoba, however, where implementation of legislation by provincial authorities was generally more restrictive and transitional in nature than in other jurisdictions, the proportion of carriers indicating negative assessments dropped from 80 per cent in 1988 to 60 per cent in 1991, a trend unique to this jurisdiction.

Owner-Operator Usage

There was considerable increase in the use of owner-operators in the 1980's, consistent with carriers' strategies for expansion. Prior to the implementation of reduced entry controls in extra-provincial trucking, regulated market access generally assured sustainable level of revenue for both carriers and owner-operators. It was also generally recognized that any revenue shortfall by the owner-operator could usually be compensated by driving longer hours or distances.

FIGURE 5.20
CCMTA 1991 National Roadside Survey:
Owner-Operator Share by Region



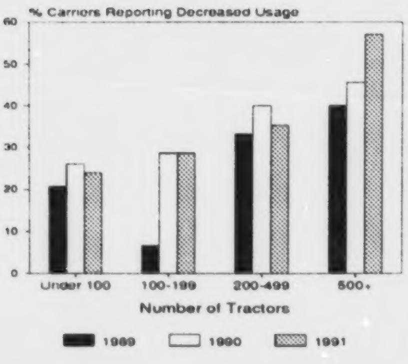
The trend toward greater usage of owner-operators continued under the new regulatory environment. There was a very strong demand for owner-operators to support much of the carrier expansions into new markets made possible through new and broader licences. Relatively easy terms for the acquisition of equipment encouraged the entry of owner-operators.

An indication of the relative usage of owner-operators among Canadian-based for-hire and private carriers is provided by the results of the 1991 CCMTA National Roadside Survey conducted in June 1991. The results of the survey, which focused primarily on domestic extra-provincial movements, are based on over 20,000 driver interviews. (Figure 5.20) Overall, owner-operators accounted for about 33 per cent of all drivers interviewed, with a relatively higher share associated with for-hire carriers (35 per cent) than private carriers (24 per cent). On a regional basis, usage of owner-operators was highest among carriers based in British Columbia, Alberta, Manitoba and Newfoundland and lowest among carriers based in Québec.

Developments affecting the role of owner-operators in the trucking industry can be delineated into two phases. In the first phase, the liberalization of extra-provincial entry provisions allowed expansions into new markets. As competition intensified, carriers' strategies placed greater emphasis on the need for balanced loads. This led carriers and owner-operators to be more dependent on intermediaries such as load brokers to get loads for their backhaul movements. A significant increase in market access, in both domestic and transborder operations, eroded the traditional distinction between front-haul and back-haul movement for rate-setting purposes. Except for specialized services, carriers could no longer, in setting a rate, factor the cost of an empty return trip. With Hours of Service regulations coming into force, a ceiling was placed on the ability of owner-operators to compensate revenue shortfalls by driving longer hours, forcing them to become even more cost-conscious.

A new phase emerged with the 1990's, one imposed by the poor economic conditions which forced carriers to rationalize operations. These measures were dictated by the degree of competition prevailing in the markets served, as well as by the impact of the recession on their customers. For transborder operations, rationalization has been defined by the ability of carriers to meet not only the competition of Canadian-based carriers, but also that of U.S. carriers.

FIGURE 5.21
Use of Owner-Operators by
Size of Carrier



Carriers' strategies for dealing with the new market conditions of the 1990's included more stringent cost controls and increased focus on factors affecting productivity. Carriers' productivity programs related to the specification and allocation of equipment or the use of driver teams to optimize equipment utilization while complying with hours of service regulations. In carriers' rationalization plans, the cost structures of owner-operators and their ability to be integrated into productivity programs were closely examined. Measures adopted by carriers included renegotiating terms and conditions with owner-operators, converting owner-operators to company drivers and reducing owner-operator complement. At the same time, however, carriers faced a shortage of owner-operators in some specialty areas.

Feedback from carriers consulted for the Agency's Annual Reviews shows a pattern of lower reliance on owner-operators since 1989, particularly among larger carriers. (Figure 5.21) Overall, for carriers which the Agency consulted, the proportion of owner-operator power units relative to the carriers' total fleet declined from over 42 per cent in 1988 to slightly under 40 per cent in 1991.

TABLE 5.27
Capacity Utilization by Company Driver/Owner-Operator - 1991

	Empty		Full (75%+)	
	Company Driver	Owner Operator	Company Driver	Owner Operator
	% of movements			
Domestic				
Canadian-Based	18	13	62	69
Transborder				
Canadian-Based	36	35	58	68
U.S.-Based	39	38	56	56

An indication of capacity utilization in relation to company driver and owner-operators is provided by the results of the two roadside surveys conducted in 1991: the CCMTA National Survey and the Transborder Survey. The surveys showed lower rates of empty haul among Canadian-based owner-operators than for company drivers, in both domestic and transborder movements. (Table 5.27) Conversely, owner-operators registered a higher proportion of fully loaded movements (i.e. over 75 per cent capacity utilized). For domestic operations, the national pattern was also observed across all regions. The nature of operation, type and length of haul, and market sector have a bearing on the differences between owner-operator and company driver. However, the relatively high degree of capacity utilization among owner-operators suggests that efficiency gains necessary to improve the financial viability of owner-operators must be derived from factors other than simply loaded levels (e.g. equipment productivity).

Load Brokers

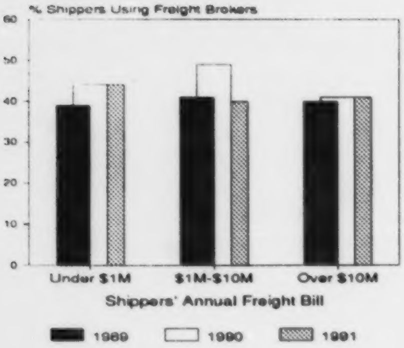


FIGURE 5.22
Use of Freight Brokers by Shippers, 1989–1991

The demand for services of load brokers or intermediaries in arranging for transportation services has increased. This is in part due to carriers' expansion into new markets and a greater need by both carriers and owner-operators for balanced loads. On the user side, the results of the Agency's shippers' survey indicate that a substantial proportion of shippers make use of load broker services. In 1991, about 42 per cent of shippers indicated having used a load broker to arrange for truck transportation. (Figure 5.22) The proportion of shippers using load brokers has remained fairly stable since 1989 (40 per cent in 1989, 45 per cent in 1990); for the past two years, however, a significant share of these shippers, about one in four, reported having increased their usage of load brokers.

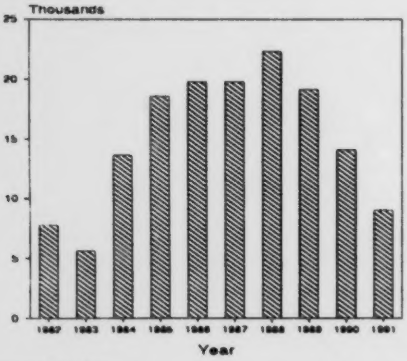
Some problems arising from the lack of regulations governing the business practices of load brokers were reported by carriers in the course of the Agency's Annual Review consultations. Problems between load brokers and owner-operators also surfaced in the grievances raised by the owner-operators during the 1990 blockades. The role of load brokers in the trucking industry was addressed by Québec and Ontario authorities in the aftermath of the owner-operator blockades. The issue of load broker relations was also the focus of an inquiry by a CCMTA Task Force in 1991. In the light of reported problems arising from the business practices of some load brokers, a need was noted for the establishment of measures to ensure stability and efficiency in the dealings with load brokers. Given the importance of load brokers to both users and providers of trucking services, provincial authorities undertook to establish requirements for financial responsibility and disclosure on the part of load brokers. In April 1991, Ontario introduced regulations governing operations of load brokers.

Equipment

Overall demand for power units, as measured by registrations of new Class 8 vehicles (i.e. with gross vehicle weight over 14,968 kgs) was down by more than 35 per cent over 1990. (Figure 5.23) Recessionary conditions and below target financial performances of many carriers contributed to the three year decline in demand for new tractors. Carriers also reported a relatively high volume of equipment available as a result of closures and bankruptcies. The level of registrations in 1991 was at its lowest level since 1984. A similar situation was reported in the United States, with 1991 sales of Class 8 vehicles decreasing by more than 19 per cent over 1990.

Feedback from carriers consulted for the Review indicated that slightly less than half of the carriers acquired or replaced tractors during 1991. By comparison, about 55 per cent reported having purchased or leased tractors the previous year. Carriers reported aggressive pricing by some manufacturers in an effort to promote sales.

FIGURE 5.23
New Class 8 Registrations in Canada (1982–1991)



Source: R.L. Polk

Carrier/Shipper Relations

In each year, from 1988 to 1991, the vast majority of shippers reported that for-hire truck services had either improved or remained about the same. (Table 5.28) In 1988, 45 per cent of truckload shippers indicated improvements in trucking services; while this proportion remained stable in the two subsequent years, by 1991 it dropped to 37 per cent. The relatively high proportion of shippers reporting improvements in truckload services in each year from 1988 to 1990 is consistent with strong market entry, increased competition and expanded carrier operations during the first three years following the enactment of new legislation. The drop in the proportion of shippers reporting improvements in truckload services during 1991 may reflect on the carriers ability to meet some of the increased shippers expectations at a time when generally poor financial conditions prevailed in the trucking industry. At the same time, however, some of the negative effects of the price-driven allocation of traffic may be reflected in the higher proportion of shippers reporting deterioration in trucking services over the four year period: from three to eight per cent for truckload and from five to 12 per cent in LTL.

Shippers continued to be highly price-sensitive, but service factors were increasingly emphasized.

By 1991, while shippers' negotiations with carriers continued to be dominated by rate considerations, there was increased emphasis by shippers on service factors. (Figure 5.24) Carriers have reported that "just-in-time" and "overnight delivery" became increasingly important service elements emphasized by shippers as inventory control systems became more widespread. The increasing prevalence of logistics in production and distribution systems has also promoted the application of computer-based technology in carrier-shipper dealings, such as the implementation of EDI and electronic shipment tracing.

FIGURE 5.24
Most Emphasized Service Factors by Shippers

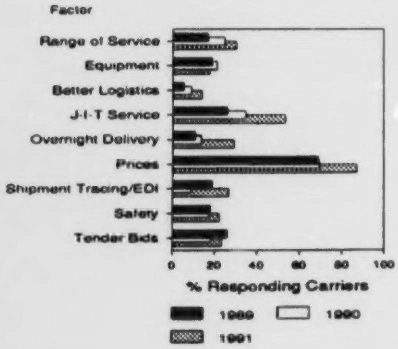


TABLE 5.28
Overall Changes in For-Hire Trucking Services: Shippers' Perspective 1988-1991

	1988	1989	1990	1991
	% of shippers			
Improvement				
Truckload	45	44	44	37
LTL	37	37	35	33
No change				
Truckload	53	52	50	55
LTL	58	56	55	55
Deterioration				
Truckload	3	4	6	8
LTL	5	8	10	12

Shippers' evaluation of specific service factors (i.e. equipment supply and condition, liability coverage, service frequency and reliability, transit time, shipment tracing, product care, claims handling, carrier cooperation, quality and efficiency of service) were generally favourable over the period 1988-91 although respective ratings varied by factor and type of service. (A summary of shipper ratings for each of these factors in respect to truckload and LTL services is provided in Appendices E.5/E.6) The highest overall factor ratings (i.e. with over 80 per cent of shippers giving a very good or good rating) reported by truckload users were for carrier cooperation, equipment condition and supply, transit time, and quality and efficiency of service. The lowest ratings were in respect of claims handling and shipment tracing; these two factors were also rated lowest in shipper evaluations for LTL services.

Trucking blockades were a key element in carrier-shipper relations in 1991. Shippers, particularly those whose production facilities rely on "just-in-time" inventories (such as auto manufacturers) and those dealing in perishable commodities, voiced concerns over the potential for disruptions of production and/or distribution that could arise from discontent prevailing within the trucking industry.

Both shippers and carriers were concerned about the impact of disruptions in trucking services.

Auto makers, in particular, indicated that the potential for disruption of their production/distribution processes could be a factor governing future operational and investment plans. Shippers' groups made representations to federal and provincial authorities to ensure stability in the provision of trucking services.

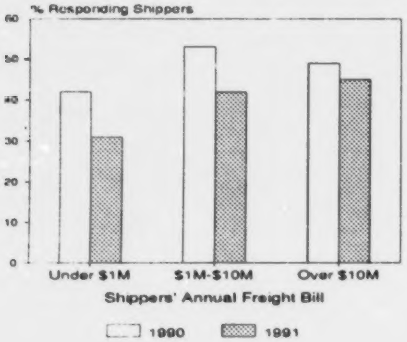
Carriers were highly concerned as well about potential market loss, particularly in the transborder sector, arising from long term uneasiness on the part of shippers. To this effect, the Ontario Trucking Association formed, in the fall of 1991, a committee with major auto makers and shippers' associations to address this issue.

Carrier/Shipper Relations - Rates

Value added services and strategic alliances are changing the nature of carrier/shipper relations.

Over the four year period since deregulation, carriers' rate strategies, within each segment of the industry, have varied in response to operational and structural changes as well as shifts in the nature and level of demand. As a result of the widespread market entry and expansion in the first two years, competition was typically rate-driven and geared to capture market share, particularly in the general freight truckload sector. More balanced payloads and efficiency gains generally compensated for lower rates. By 1990, attempts by carriers to introduce some degree of rate stabilization often ran counter to pressures facing shippers from weakening markets and increasingly global sources of competition in their sectors of activity. While both truckload and LTL carriers became reluctant to sustain rate wars in order to retain market share, the level of excess capacity and marginal returns mitigated against any significant reduction in degree and extent of rate competition.

FIGURE 5.25
Shippers Indicating a Reduction in the Number of Carriers Handling their Traffic



While sustained rate concessions have caused some carriers to drop some low-rate freight in order to maintain marginal returns, carriers have also pursued strategies to capture an increasingly larger share of a particular client's freight on the basis of competitive rates and value-added services such as logistics planning, regular performance reporting and warehousing. In this regard, nearly four in ten shippers using trucking services indicated having reduced the number of carriers with which they dealt. The shift to "core" carriers, though significant in 1991, appears to have been less widespread compared to a year earlier when close to half the shippers reported a reduction in the number of carriers handling their traffic. In both years, though, over 80 per cent of these shippers indicated that these consolidation measures had produced favourable results. (Figure 5.25)

The "core" carrier concept is also tied to the emergence of alliances or partnerships between carriers and shippers, particularly in sectors involving specialized equipment or services (e.g. chemical products). Under these arrangements, which involve commitments by both parties, carrier service levels and performance standards are tailored to shipper requirements.

Lags in payments of freight bills was an issue raised in the course of deliberations of the Minister's National Task Force. Carrier, owner-operator and labour representatives supported the notion of regulating the time frame for payment of freight bills, similar to the rule in the United States which prescribes payment within 15 days. Shipper groups were strongly opposed to such a measure on the grounds that it represented a form of re-regulation and could interfere with normal business practices. Several shippers' associations canvassed their members and reported that payments were typically within prescribed terms of payments stipulated in freight contracts, thereby obviating the need for regulation in this area.

In the course of the consultations conducted for the 1991 Review, carriers were asked to indicate the time frame for payment of their services. Overall, average time reported for the acquittal of freight bills was between 40 and 60 days; this represented a deterioration relative to previous years, a situation which carriers associated with poor economic conditions. Nearly half of the carriers consulted reported that at least 40 per cent of shipments were acquitted within 30 days; however, nearly three-quarters of the responding carriers indicated that up to 20 per cent of shipments require 60 to 90 days for payment.

Carrier Performance

Financial Data

The financial performance of major Canadian carriers continued to deteriorate.

The deterioration in the financial performance of the major carriers, reported in previous years, continued during 1991. (Figure 5.26) The operating ratio of the major carriers (i.e. with annual operating revenues of $25 million and more) increased from **98.9** in 1990 to **100.0** for 1991. The operating ratio measures operating expenses over operating revenues before taxes and interest payments, and is an indicator of financial performance in the short-term. The operating ratio for these carriers for the comparable period in 1988 was **96.2**. Carriers primarily involved in general freight fared worse than the overall group of major carriers. The operating ratio for general freight carriers in 1991 was over **100**, which means that operating expenses exceeded operating revenues.

For the industry as a whole (both major carriers and the rest of the industry), the operating ratio remained roughly unchanged in 1991 over 1990.

The revenues of major carriers with operating ratios of 98 and above accounted for 66 per cent of the total revenues of the major carriers. (Figure 5.27) This figure has increased steadily over the last two years (from 44 per cent in 1989 and 56 per cent in 1990) and is another indicator of the deteriorating performance of major carriers. In 1988, this figure stood at roughly 40 per cent.

FIGURE 5.26
Operating Ratios for the Industry and the Major Canadian Carriers 1988 –1991

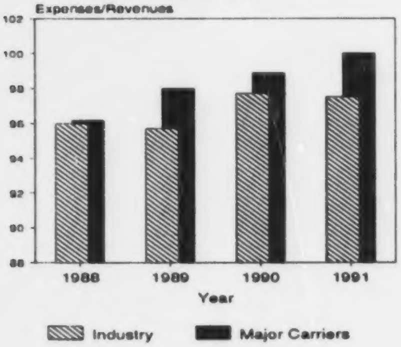
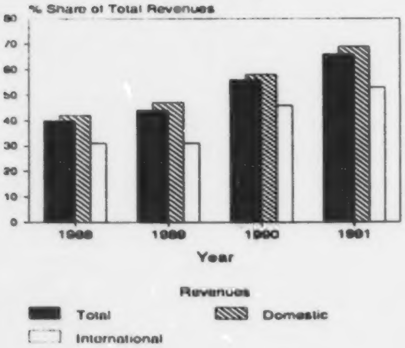


FIGURE 5.27
Major Carriers With Operating Ratios of 98 and Over (1988–1991)



Carriers' Consultations

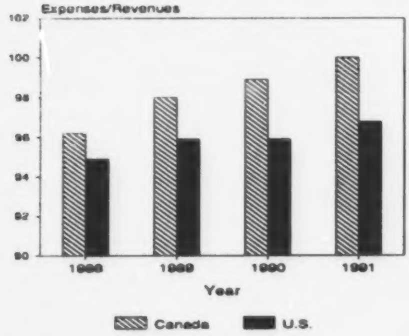
Of the carriers consulted for the 1991 Review, the percentage that reported a deterioration in their financial situation compared to the previous year fell from 46 per cent in 1990 to 32 per cent in 1991, the lowest level since 1988. However, for many carriers that have been interviewed over the last four years, this was an indication that their financial performance had deteriorated to such an extent that it was unlikely to get worse. In some cases, carriers originally in the sample left the industry due to merger or bankruptcy, or simply shifted operations to the United States.

In general, carriers reported that it was extremely difficult to generate positive financial results in general freight markets. Often carriers that reported improvements in their financial situation noted that this had occurred as a result of an increased focus in specialized operations, or by operating in a niche where they were less subjected to the destabilizing effects of excessive rate competition; in other cases, carriers had moved part of their operations to the United States.

Although it is difficult to review the impact of such moves, it is notable that carriers which are primarily involved in specialty or bulk operations have been more likely to report financial improvements in recent years. For the years 1988 to 1991, just under 30 per cent of carriers primarily involved in general freight reported improvements. The percentage of specialty and bulk carriers that reported an improvement in their financial situation has risen steadily from 17 per cent in 1988 to 54 per cent in 1991.

Canadian carriers fared worse than U.S. trucking firms during the recession of 1991.

FIGURE 5.28
Operating Ratios for Major Canadian and U.S. Carriers (1988–1991)



Canada: Annual Revenue of $25 Million
U.S.: Top 100

Canada - U.S. Comparison

Comparisons of financial results since 1988 continue to favour U.S. carriers. (Figure 5.28) The difference in the composite operating ratio between Canadian and U.S. carriers has steadily widened in the past few years, from a difference of 1.7 points in 1988 to a 3.2 point spread in 1991.

The difference widened in 1991 even though the U.S. trucking industry was suffering from a recession as well. For 1991, annual operating income for the top 100 U.S. carriers had decreased by 20 per cent from 1990, while net income had dropped by 27 per cent.

In addition to their relatively poor financial performance, Canadian carriers are highly leveraged in comparison to their U.S. counterparts. The transborder study on the financial performance of Canadian trucking firms noted that the debt to equity ratio of Canadian firms is at least twice that of U.S. firms, for almost every size of trucking firm. The impact of this larger debt load is that Canadian carriers have a relatively higher proportion of their costs which are fixed (i.e. not related to traffic level). In recessionary years, such as in the past two years, when demand declines, fixed costs take on a relatively greater importance in the carrier's cost structure. Ultimately, if demand does not pick up rapidly, this points to a diminished capacity on the part of the carrier to invest in new equipment and technologies that could result in productivity gains and help lower the unit cost of operation. In a worst case scenario, it leads to a situation where the carrier cannot meet its fixed obligations.

Industry Outlook

Most Canadian carriers that commented on the industry outlook noted that the industry has yet to experience the full impact of deregulation. Several carriers compared the Canadian experience under deregulation with that of the U.S. trucking industry. Such comparisons led to the belief that the trucking industry in Canada has not gone through all the structural changes needed before the industry can stabilize. Many carriers felt that even an economic recovery would not provide much of a solution to the industry's situation as it would not resolve the problem of excess capacity. Bankruptcies and mergers that have occurred were viewed as necessary for the industry by some carriers. And while some carriers indicated that these structural changes may have had a direct benefit for their own company, the level of capacity was not significantly reduced as a result of bankruptcies since carriers sometimes started up from the remains of bankrupt ones, or new carriers entered the industry. It is generally acknowledged that, in the domestic market, there must be some reduction in capacity that will not be replaced in order for the industry to stabilize.

While recognizing problems associated with "excessive" rate competition, carriers also cite institutional barriers as factors affecting the financial performance of the industry. Carriers point to inefficiencies and administrative burdens resulting from lack of uniformity in regulations and differences in standards between jurisdictions (with regard to compliance, safety, weights and dimensions, and equipment configuration).

Carriers adopted measures to reduce operating costs and avoid taking loads below cost. Some carriers noted that the scope for further streamlining of operations and cost reductions were limited, improvements could only come through increased investment in high technology systems and more productive equipment. A substantial number of transborder carriers considered moving part or all of their operations to the United States, as a way to compete effectively with U.S. carriers. In domestic operations, a turnaround in financial performance was felt to be contingent upon improvement in economic conditions and a reduction in capacity. A number of carriers cited the need for specialization or diversification into more value-added services as a prerequisite for restoring their viability.

MARINE SERVICES

Canadian International Liner Trade

Highlights of 1991

Consensus That *SCEA* Had No Effect

Agency surveys again revealed that *SCEA* had no effect on the operations of most shippers, freight forwarders and terminal operators. Conferences also reported no effect of *SCEA* but the Act's existence continued to facilitate conference operations in Canadian liner trade.

Rationalization of Liner Services Had a Negative Impact on Halifax's Container Traffic

The restructuring of liner services on Canada's east coast in 1991 had an especially negative effect on the number and frequency of liner services calling at Halifax.

Service Contract Numbers Declined; Independent Action Varied by Conference

Both the number of service contracts and conferences using them declined in 1991. While still prolific, the number of independent actions decreased in the Transpacific trade. Other trades experienced slight increases or decreases in independent actions filed.

Some Groups Still Unfamiliar with *SCEA*

Although more freight forwarders were familiar with the Act, a majority of shippers and terminal operators were still unfamiliar with *SCEA* four years after its enactment.

Two *SCEA* Related Initiatives Undertaken

A Shippers/Forwarders Focus Group and an Industry Advisory Group crossed the country soliciting views on the effect of *SCEA* and related issues.

Industry Structure

Conference
A group of ocean carriers providing liner services on common trade routes who collectively agree on rates and conditions of service.

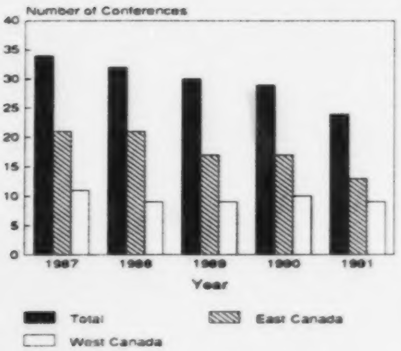
Liner Services
Services provided by conference and non-conference shipping lines using vessels operating on fixed itineraries and regular schedules. Liner services exclude the movement of bulk commodities.

Canadian liner trade witnessed the dissolution of the Greece Westbound Conference and the Johnson Scanstar Agreement, the apparent dissolution of the Canada/Colombia Conference, the Canada Great Lakes/Bolivia Joint Service Agreement and the CAVN/Saguenay Joint Venezuelan Service, and the reclassification of the Canada European Eastbound Mail Committee as non-tariff filing in 1991. These developments, combined with the creation of the Eastern Canada-South America Rate Agreement, resulted in a net loss of five conferences in Canadian trade in 1991. With the start-up of the Eastern Canada-South America Rate Agreement in mid-year, the Canada East Coast Sections of the Inter-American Freight Conference, although not cancelled, were, to a large extent, suspended. Also, in March 1991, the Canada/West Mediterranean Discussion Agreement replaced the Canada/Mediterranean Rate Agreement.

The number of conferences providing services to Canada's east coast decreased by four from 17 in 1990 to 13 in 1991. There were nine conferences providing services on the west coast in 1991, one less than in 1990, and two conferences provided services on both coasts. Of the 24 tariff filing conferences, nine carried Canadian exports, nine carried imports and six carried both import and export cargo.

Number of tariff filing conferences decreased to 24 in 1991.

FIGURE 6.1
Conferences Serving Canada as of December 31 of each year



The year also saw the beginning of what may lead to a re-filing of agreements of joint Canada-U.S. conferences with the Agency. In 1991 the Federal Maritime Commission ruled that conferences in U.S. trades could not extend their jurisdiction, as outlined in U.S. maritime laws, to trades between foreign countries. As a result, the Canadian Westbound Rate Agreement (CWRA) was established to replace the Transpacific Westbound Rate Agreement (TWRA) in handling Canadian shipments to Asia. It is expected that most, if not all, major joint conferences will follow the TWRA's lead in creating separate U.S. and Canadian sections.

Conference membership decreased from 54 shipping lines in 1990 to 43 in 1991, and the number of shipping lines holding membership in more than one conference declined from 24 in 1990 to 20 in 1991.

Other *SCEA* related agreements on file with the Agency increased from six in 1990 to 11 in 1991. These agreements included six discussion/bridging agreements, three space chartering/sailing agreements, one stabilization agreement and one inter-conference agreement.

In the period 1988 to 1991, the number of tariff filing conferences declined from 32 to 24. While the number of conferences providing services to the west coast remained the same at nine in both 1988 and 1991, the number of conferences serving the east coast declined by eight, from 21 in 1988 to 13 by 1991. Two conferences continued to provide services on both coasts over this period.

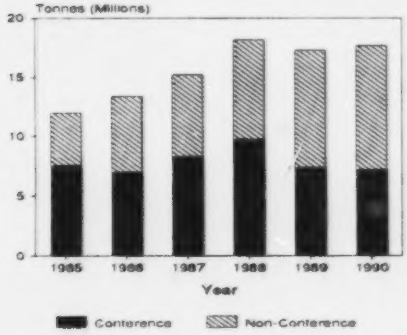
Conference membership has decreased over time from 54 shipping lines belonging to conferences in Canadian trade in 1988 to 43 shipping lines in 1991.

Over the past four years, Canadian liner trade also experienced the genesis of discussion, bridging and stabilization agreements among conferences and between conference and non-conference shipping lines -- unheard of phenomena in 1988.

Conference Operations

Importance of Conferences in Canadian Trade

FIGURE 6.2
Canadian International Liner Trade Cargo Through Canadian and U.S. Ports



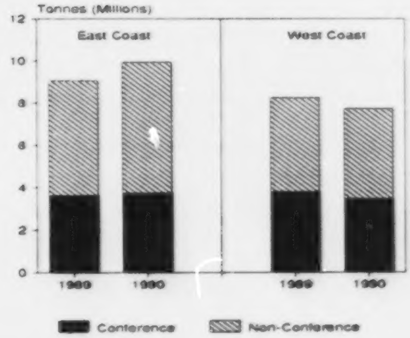
Note: Tonnages for 1989 & 1990 include Canadian transhipments through US ports

Marine remains the single most important transport mode in terms of freight volumes carried in Canadian trade. Bulk (i.e., non-liner) shipments continued to dominate Canadian waterborne commerce in 1990, the most recent year for which statistics are available. Some 226 million tonnes of bulk freight, up by two per cent from 1989, but down by one per cent from 1988, were moved by water in Canadian international trade in 1990. Bulk accounted for just over 93 per cent of the total tonnage moved by water in 1990.

Freight carried in liner services is a small but significant (as a result of higher unit values) proportion of Canadian international waterborne trade, accounting for slightly less than seven per cent of the total volume. Tonnages carried in liner trade increased slightly from 1989 to 1990 but appeared to be lower than 1988 (Figure 6.2). Liner trade figures for 1989 and 1990 have, however, been adjusted to eliminate liner cargo originating in or destined for the United States but transshipped via the eastern Canadian ports of Montréal and Halifax. These same figures also reflect the addition of Canadian liner cargo tonnages transshipped via U.S. ports. In light of these adjustments, it is estimated that total liner tonnage has remained relatively stable over the period 1988 through 1990.

Conference tonnage, which accounted for 40 per cent of total liner tonnage in 1990, decreased by three per cent from 1989 to 1990. Over the past three years, these tonnages have shown a decline. Conversely, cargo moved by non-conference carriers, accounting for the majority of total liner tonnage, steadily increased over the past three years, rising by six per cent from 1988 to 1990.

FIGURE 6.3
Canadian East and West Coast Liner Trade for 1989 and 1990

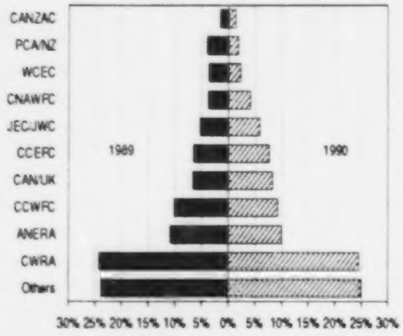


Note: Tonnages include Canadian Transshipments through U.S. Ports

Canadian liner tonnage handled on the east coast, including transshipments through U.S. ports, accounted for 62 per cent of total liner tonnage in 1990 with the remainder moving via west coast ports. The 24 conferences serving Canada handled approximately 37 per cent of Canadian liner freight shipped through Canadian ports on each of the east and west coasts in 1990 (Figure 6.3). While conference liner tonnages handled on both Canadian coasts remained relatively stable from 1989 to 1990, tonnages handled by non-conference shipping lines alternately increased on the east coast and decreased on the west coast.

Conferences provided liner services on all of Canada's major trade routes in both 1989 and 1990. Figure 6.4 ranks those conferences moving the majority of Canadian conference liner tonnage according to their market shares in these two years. Canadian liner freight transshipped through U.S. ports and handled by conferences serving Canada is reflected in market shares for 1989 and 1990. Together, the four Transpacific conferences (41 per cent) and the four U.K./Continent conferences (28 per cent) accounted for close to 70 per cent of total conference tonnage carried in Canadian liner trade in 1989 and 1990. Of their market shares, it is estimated that at least 40 per cent of Canadian conference liner tonnage carried by the CWRA, 60 per cent of the Asia North America Eastbound Rate Agreement's (ANERA) tonnage, and 38 per cent of the Japan-East Canada (JEC) and the Japan-West Canada (JWC) Freight Conferences' tonnage consisted of transshipments through U.S. ports in both 1989 and 1990.

FIGURE 6.4
Share of Canadian Conference Tonnage Carried By Tariff Filing Conferences



Note: Percentages include Canadian Transshipments through U.S. Ports

Transshipment of Canadian cargo through U.S. ports is a significant component of total Canadian liner trade. In determining Canadian tonnage transshipped through U.S. ports in 1989 and 1990, the Agency made use of information obtained from the Journal of Commerce's Port Import/Export Reporting Service (PIERS). The figures revealed that a minimum of 15 per cent of total Canadian liner tonnage passed through U.S. ports on its way to or from Canada in both 1989 and 1990. Transshipments represented some 22 per cent of Canadian conference cargo but only 9 per cent of non-conference liner cargo.

The majority (61 per cent) of transshipped Canadian liner tonnage moved out of U.S. ports on the west coast, with 82 per cent being handled by conferences and 18 per cent by non-conference carriers. Of the 39 per cent of total Canadian transshipments through the U.S. east coast and Gulf ports, 69 per cent were handled by non-conference carriers as compared to 31 per cent by conferences.

Level of Service

The recessionary climate in Canada and the U.S. led liner operators to make a number of adjustments to their service levels on North American routes in 1991. "Cost savings" became the watchwords in liner shipping, with cuts in capacity, rationalization of ports of call and the formation of vessel sharing partnerships dominating the industry and impacting significantly on levels of service in Canadian liner trades.

Events

North Atlantic services rationalized.

The restructuring of North American services by conference members lines operating on the North Atlantic trade route proved to be the most significant development in Canadian international liner trade in 1991. Atlantic Container Line (ACL) continued to use Halifax as a port of call while Hapag-Lloyd ships were redeployed to call at U.S. ports only. To continue to meet the demand for their services out of central Canada, both lines chartered space on Canada Maritime's and Orient Overseas Container Lines' (OOCL) St. Lawrence Co-ordinated Service out of Montréal. In a related development, CAST, another conference line plying the North Atlantic route, withdrew one of its six combination container-bulk vessels from its Montréal to Europe service.

Financial difficulties forced the withdrawal from the North Atlantic route of the non-conference service of Holland Canada Line. As a result, its partner in the joint service, United Atlantica Line (UAL) discontinued its service. On the other hand, Europe Canada Line (ECL) inaugurated a non-conference service from Montréal to Europe.

Halifax also bid farewell to the Compagnie Générale Maritime(CGM)/Italian Line/Evergreen consortium offering services to and from the Mediterranean as these carriers became part of a new seven-line space chartering and sailing agreement calling at U.S. ports only.

The major development in the Transpacific trade was the formation of four vessel sharing partnerships among the principal carriers plying the route. New partnerships included:

Major partnerships forged in the Transpacific.

(1) Sea-Land Services Inc. and Maersk Line;
(2) "K" Line and Mitsui O.S.K.;
(3) NYK Line and Neptune Orient Lines (NOL); and
(4) American President Lines (APL) and OOCL.

In a related move, OOCL returned to the CWRA fold, in conjunction with its partnership with APL, toward the end of 1991.

OOCL and "K" Line discontinued direct all-water service from Canada's east coast to the Far East in late 1991 in favour of landbridge services. Their former partner, NOL, with NYK Line chartering space on its vessels, continued this service via the Suez Canal. With NYK Line's absorption of Nippon Liner Systems in the fall of 1991, the number of Japanese lines operating in the Transpacific further declined to three from six prior to 1988.

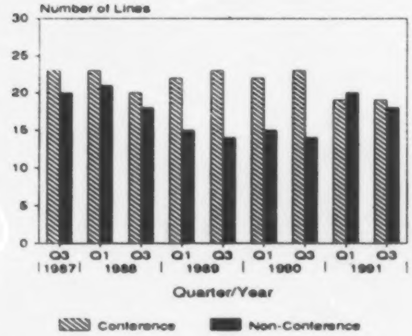
On the Canadian east coast to Australia route, 1991 saw both Ocean Star Containerline and PACE/Columbus Line elect to serve the eastern Canadian market via New York and Philadelphia respectively rather than Halifax. On the west coast, Nedlloyd withdrew its vessels from the Australian service, preferring instead to slot charter on newcomer BHP International Maritime Transport's vessels, and both East Asiatic Containerlines (EAC) and "K" Line discontinued their Australia service in 1991.

Blue Star Line acquired ACT/PACE.

Finally, in late 1991 Blue Star Line acquired ownership of the North American services of ACT/PACE Line. Despite the merger, both lines continued to operate their west coast to Australia services separately.

Changes in Number of Liner Services

FIGURE 6.5
Liner Services on Major Trade Routes to/from Western Canada



Note: Includes services via U.S. ports and MLB services

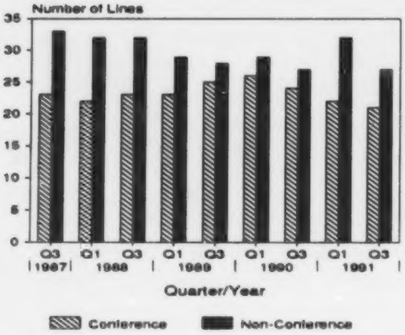
The number of conference services between Canada's west coast and Europe, the Far East and Australia dropped from 22 in the first quarter of 1990 to 19 in the first quarter of 1991 (Figure 6.5). The loss of two direct services and one service via U.S. ports accounted for the overall decline in 1991. On the other hand, the addition of five new non-conference direct services resulted in the significant increase in services of this type, from 15 to 20 from 1990 to 1991. Discounting cases where a single line offered services both directly and through a U.S. port, Canadian shippers enjoyed the services of 35 conference and non-conference lines operating on major trade routes to and from the west coast in 1991, one more than in the previous year.

On Canada's east coast, the number of conference services dropped from 26 in the first quarter of 1990 to 22 in the first quarter of 1991 as a result of the loss of both direct services and services via U.S. ports. The number of non-conference services continued to outnumber conference services as new direct services and services via U.S. ports accounted for an increase of three, from 29 in 1990 to 32 in 1991. Taking into account that some lines offered more than one service on the same route, Canadian shippers could choose among 44 conference and non-conference lines on the east coast in 1991, down from 47 in the previous year.

Departure of several lines impacted negatively on Halifax.

The rationalization of Canadian liner services in 1991 had a particularly devastating effect on the number and frequency of liner services calling at the port of Halifax. The reduction in calls of the Hapag-Lloyd/ACL joint service and the diminution of container throughput as a result of these lines' use of the St. Lawrence Co-ordinated Service, the loss of the CGM/Italian Line/Evergreen consortium, OOCL and "K" Line's decision to discontinue all water services in favour of landbridge services,

FIGURE 6.6
Liner Services on Major Trade Routes to/from Eastern Canada



Note: Includes services via U.S. ports and MLB services

and the pull-out of PACE/Columbus and Ocean Star set Halifax back in its goal to become Canada's pre-eminent container port.

Conference services on major trade routes to and from the west coast have remained relatively stable since 1987. In contrast, the number of non-conference services available to Canadian shippers has, for the most part, lagged behind those provided by conferences for the past five years. With the exception of 1991, shippers have had a choice of a minimum of 20 conference services in each of the four years prior to 1991.

The number of services provided by conference lines on the east coast has been very stable over the period 1987 through 1991. Although slightly more variable than their conference counterparts, the number of services provided by non-conference lines has been greater in each of the past five years.

Service Frequencies

Conference carriers have historically offered the greatest number of weekly services to Europe and the Far East. However, on the eastern Canada-Europe route, the number of weekly and bi-weekly services offered by non-conference lines from 1990 through 1991 actually equalled or exceeded the number offered by conference operators, reflecting the continuing impact of liner services provided by strong independents such as Maersk and Evergreen.

In the Far East trade the number of landbridge services via west coast ports, being used as alternatives to all water services, continued to increase on an annual basis.

Estimating service frequencies in the Australian trades is complicated by the fact that many major lines (calling weekly) offer feeder services to Australia on a non-conference basis as an add-on to their main routings to the Far East; conference carriers providing direct services to Australia do not offer weekly sailings due to greater distances and low cargo volumes.

Since 1987, shippers have seen minimal changes in the number of weekly and bi-weekly liner services offered by both conference and non-conference lines from the Canadian east and west coasts. Over the same period, conferences have continued to offer more frequent services to Europe from the west coast and to the Far East from both coasts, with non-conference lines providing more frequent services to Europe from eastern Canada and to Australia from both the east and west coasts.

Transit Times

Transit times have not varied.

There was little change in transit times advertised by shipping lines from 1990 to 1991 and from 1987 through 1991. When changes did occur it was normally due to the entry of a new line into a service or a change in a line's conference status. On Canada's two highest volume routes -- between eastern Canada and North Europe, and western Canada and the Far East -- conference and non-conference carriers have offered comparable transit times. There was more variation in transit times offered by conference and non-conference operators on lower volume routes.

Fleet/Capacity Changes

Carrying capacity was affected by rationalization of services.

For the most part, changes in fleets and available carrying capacity were tied to the rationalization of services by lines operating in North American liner trades in 1991. The restructuring of services by Hapag-Lloyd/ACL, PACE/Columbus Line, Ocean Star, CAST and the CGM/Italian Line/Evergreen consortium resulted in a considerable loss of carrying capacity available to shippers at Canadian east coast ports. The bankruptcy of Holland Canada Line and the withdrawal of its partner, UAL, from Canadian liner trade further exacerbated the capacity situation in 1991. ECL's initiation of operations, and Maersk and Zim's re-assignment of vessels calling at Halifax managed to offset capacity losses only minimally in 1991.

On the Canadian west coast, Mitsui adjusted its fleet calling Vancouver, with "K" Line slot chartering space on its ships as a result of their new partnership. As well, China Ocean Shipping Company (COSCO) introduced a fifth new 2,700 TEU vessel into service, while NYK deployed two new 2,850 TEU vessels in its "FEX" service calling Vancouver bi-weekly.

Container capacity available to Canadian shippers remains elusive.

The size of container vessels now being operated in international liner shipping requires a larger cargo base than Canadian markets alone can provide. Most lines include a Canadian port in their U.S. itineraries if cargo volumes justify a direct call; others offer overland service to and from Canada via U.S. ports. However, it is impossible to determine, from published sources, the specific number of slots allocated to Canadian cargo on a particular service or whether shipping lines simply use Canadian cargo to fill empty slots after all U.S. cargo has been accommodated.

Over the past five years, overcapacity on major shipping routes has, for the most part, assured Canadian shippers necessary space on liner vessels. However, the relatively recent resurgence of the Transpacific trade (especially outbound from North America), carrying capacity restrictions imposed on carriers by the Transpacific Stabilization Agreement (TSA) and the imbalance of trade favouring exports on the North Atlantic have led to shippers reporting space and equipment shortages, especially in outbound trade.

Tariffs

As in past reviews, the Agency continued to monitor, on an annual basis, changes in conference ocean freight rates in Canadian liner trade. As reported in the 1990 Review, the Agency undertook to track changes in marine freight rates including ancillary charges of a selected group of high volume import and export commodities moving on major Canadian liner trade routes between 1983 and the present, using conference tariffs filed with the Agency.

Basic Freight Rate
Rate published in filed tariffs before the addition of surcharges.

Total Freight Rate
Basic rate plus all applicable surcharges.

Surcharges
Components of total rate including, among others, arbitraries, protective service charges, Bunker Adjustment Factors (BAFs) and Currency Adjustment Factors (CAFs).

Changes in Conference Freight Rates Exhibited No Discernable Trends

An analysis of the direction and magnitude of changes in conference freight rates associated with major moving commodities on Canada's principal trade routes revealed no general patterns or trends from 1990 to 1991, or since the enactment of *SCEA* in 1987. The evolution of conference freight rates has been a function of basic rate changes, currency conversions, and surcharges imposed by conferences. Conference rates quoted Canadian shippers increased from 1990 to 1991 for most commodities transported to and from the Far East, decreased to and from the U.K. and Europe, decreased to Australia, but increased and decreased for movements from Australia.

Since *SCEA*'s enactment, conference freight rates to the Far East for most commodities analysed have risen, while rates from Europe have fallen. However, from the Far East, Australia and the U.K., rates for some commodities have increased while others have decreased. Market forces, rather than changes to *SCEA* in 1987, continued to shape conference freight rates in 1991 and from 1988 through 1991. A more detailed analysis of changes in conference rates over the past four years follows.

Eastern Canada - Australia

Both the inbound Australia-Eastern Canada Freight Conference, and the outbound Canada-Australia/New Zealand Association of Carriers, operated throughout 1991 on the world's longest and most expensive trade lane.

Total freight rates fell in outbound trade to Australia.

As in 1990, the outbound conference, which quotes rates in U.S. dollars, instituted no general rate increase (GRI), so that the basic rates for five of the major commodities tracked remained unchanged in 1991. The total rates (including surcharges) for all major commodities actually fell, in current terms, by between one per cent for automobile parts and six per cent for printing paper. This was mainly due to the appreciation of the Canadian dollar against the U.S. dollar, and slightly lower Currency Adjustment Factors (CAFs) in 1991.

Some rates increased, others decreased in 1991 in inbound trade from Australia.

Tariff activity in the inbound conference, which quotes rates in Australian dollars, paralleled that of the outbound conference in that no GRI was implemented. However, while total freight rates for four of the eight major commodities (i.e., wine, beer, wool and fresh pears) decreased by between one and ten per cent, the other four (frozen lamb, beef, and canned and dried fruit) increased by an average of 11 per cent. After exchange rate conversions, the basic rates of all but one commodity (greasy wool) decreased, leaving the increase in CAFs of over nine per cent between October 1990 and October 1991 as the major cause of increases in total freight rates. Market conditions associated with commodities tracked, the recession in Australia, little direct competition for conference carriers and equipment imbalances (e.g., reefer vs. standard boxes) also contributed to the direction and magnitude of changes in basic rates seen on this route in 1991.

Total freight rates increased in outbound trade to Australia over the past four years.

Between 1988 and 1991, total freight rates of all but one major commodity (synthetic resins) in the eastern Canada to Australia trade increased in current terms by between 15 per cent for frozen french fries and 25 per cent for tin plate. While basic rates, after being converted to Canadian dollars, decreased slightly over the past four years, the majority of increases in total rates can be attributed to increases in surcharges such as CAFs, Bunker Adjustment Factors (BAFs) and terminal handling charges. Only in the case of synthetic resins did the total freight rate drop between 1988 and 1991, due to the increase in surcharges being offset by a 25 per cent decrease in the basic rate.

CAFs and BAFs were not implemented in the outbound trade until after January 1989, but have more than doubled since then, as have the pre-carriage additionals from Toronto. However, both protective service charges and terminal handling charges have remained constant since 1988.

Between 1988 and 1991, some rates increased while others decreased in inbound trade from Australia.

In the Australia to eastern Canada trade, changes in basic freight rates of eight major commodities, in current terms, ranged from a decrease of 18 per cent in the case of frozen lamb to an increase of 32 per cent in the case of greasy wool between 1988 and 1991. Decreases in the basic rates of five of the major commodities were only partially offset by increases in ancillary charges, except for frozen lamb, whose rate decreased significantly more because it was not subject to CAFs and BAFs. Basic rate increases for the other three commodities, combined with increases in surcharges, amounted to total rates of 15 to 32 per cent higher in 1991 than in 1988.

Canadian shippers were subjected to numerous surcharges.

CAFs and BAFs were not used on the inbound trade route in the first quarter of 1988. Since April 1988, the CAFs have varied from par value by as much as ten per cent in both directions. BAFs, not used in the first three quarters of 1988, were re-implemented in October 1988 and have remained fairly stable since that time, as have the protective service charges. Both terminal handling charges and inland arbitraries have increased by more than 100 per cent over the four years, with terminal handling charges rising drastically in mid-1990.

Eastern Canada - United Kingdom/Continental Europe

The trade routes between eastern Canada and North Europe continued to be served by four conferences, two outbound from Canada (i.e., one to the U.K. and one to Continental Europe) and their inbound counterparts. Line membership, identical in all four conferences, did not change from 1990 to 1991.

Total rates dropped in Canada to U.K. trade...

Both outbound conferences announced three GRIs during the year. However, few, if any, actually affected major commodities tracked on these routes. On the eastern Canada to U.K trade route, total rates for all six commodities tracked actually decreased, in current terms, by between three and 50 per cent, despite increases of less than CDN $100 in the basic rates of three of the major commodities. The drop of 50 per cent, in the case of culled and dried beans, was due to a change in the method of calculating the total rate. All other decreases are explained in part by the removal of BAFs in mid-1991 and a reduction in CAFs, as well as by prevailing commodity market conditions, the continuing ability of large shippers to bid rates down and overcapacity plaguing the North Atlantic trade route.

...as well as in Canada to Europe trade in 1991.

On the Canada to Continental Europe trade route, total freight rates for four of the six major commodities decreased, in current terms, from five per cent in the case of nickel to 18 per cent in the case of military personal effects. Two rates increased, asbestos by one per cent, and copper by seven per cent, due to a change in its rate structure. Rate changes seen on this trade route can be attributed to continuing overcapacity as well as the ability of large Canadian shippers to negate the effects of conference GRIs.

There is no evidence that the mid-year rationalization of services by the two outbound conferences had any significant effect on raising freight rates of some of the major commodities from Canada to either the U.K. or the Continent throughout 1991.

Total rates rose in the U.K. trade...

While most rates charged for major commodities in the outbound trade to the U.K. decreased between 1990 and 1991, all but one (i.e., culled and dried beans) increased over the past four years. Rates for woodpulp, newsprint and paperboard exported to the U.K. increased by as much as 50 per cent by early 1991 but fell again by the end of the year, resulting in an average net increase between 1988 and 1991 of 27 per cent. Other rates experienced similar changes, albeit much less pronounced, with net increases approximating three per cent between 1988 and 1991.

...and in European trade over the past four years.

The Canada to Europe trade displayed a similar trend, with rates for all but one commodity (nickel) exhibiting net increases between 20 and 40 per cent. Rates for the carriage of nickel, consistently moved on an all-inclusive rate, rose by 14 per cent between January 1988 and October 1990, decreased in 1991, and, by year end, stood at nine per cent higher than its 1988 level. Increases occurring between 1988 and early 1991 appeared to be due to the implementation of GRIs as a result of rising demand for conference services in the outbound trades.

Surcharges have been significant but stable over the past four years.

Most surcharges, which, at times during 1990, accounted for as much as 35 per cent of a commodity's total conference rate from Canada to the U.K. and Continental Europe, remained relatively stable or decreased between 1988 and 1991. BAFs came into effect in January 1990 but were removed in mid-1991. CAFs decreased over the four years while European terminal service charges (TSCs), quoted in various European currencies, actually decreased in current terms as a result of the increasing strength of the Canadian dollar against European currencies between 1988 and 1991. On the other hand, Canadian TSCs increased by 17 per cent between 1988 and 1991.

United Kingdom/Continental Europe - Eastern Canada

Total freight rates decreased in the U.K. to Canada trade in 1991...

Total freight rates in current terms for all five major commodities tracked in the U.K. to eastern Canada trade fell in 1991. Decreases ranged from four per cent for tea bags to 17 per cent in the case of spirits. Drops in the basic rates of three of the five commodities partially explained the decline in their total rates and illustrated the ineffectiveness of GRIs and one selective rate increase instituted by the inbound conferences in 1991. However, decreases in British TSCs, BAFs (where applicable) and CAFs also contributed to the reduction of conference rates for these commodities. Furthermore, reductions in BAFs and CAFs more than offset increases in the basic rates of tea bags and of residue nickel copper, thus resulting in a net decrease in these commodities' total freight rates in 1991.

A weakened westbound trade due to the sluggishness of the Canadian economy and the ineffectiveness of rationalization policies adopted in mid-year by conferences plying the North Atlantic did little to bolster rates in 1991.

... as well as in the Europe to Canada trade.

In the Europe to Canada trade, total freight rates of all major commodities tracked decreased in current terms in 1991, with the exception of one rate. Drops in rates ranged from a mere one per cent for mineral water to 48 per cent for printing paper. As was the case in the U.K. to Canada trade, the failure of conference attempts to raise rates through GRIs or selective rate increases, and to reduce carrying capacity through service rationalization, is evidenced by the reduction in basic rates for all but two major commodities in 1991. Falling CAFs, BAFs and TSCs further helped to drive total freight rates down.

Rate changes varied in U.K. to Canada trade from 1988 to 1991.

Over the past four years, total rates for three of the five major commodities in the U.K. to Canada trade declined to varying extents. In the case of spirits and tea bags, a decrease in basic rates accounted for the downward movement of these commodities' total freight rates. A recent drop in its CAF, along with a decline in its basic rate, explained the decrease in the chocolate crumb rate. The considerable jump in the basic rate of residue nickel-copper from 1988 through 1991 was somewhat dampened by the recent disappearance of an applicable BAF and a significant drop in its CAF.

BAFs and CAFs did not appear to be significant factors in ocean freight rate changes for major commodities in the U.K. to Canada trade from 1988 through 1991. In only one of the four years were BAFs greater than zero. As well, even though CAFs were applied to three of the five major commodities, they fluctuated quarterly over the four years, and, from January 1988 through October 1990, spirits enjoyed a negative CAF to the benefit of Canadian importers. Two commodities were also subject to Canadian and British TSCs which figured much more prominently than CAFs or BAFs in the make-up of total freight rates. The Canadian TSC, the higher of the two, gradually increased over the years while its U.K. counterpart fluctuated from 1988 through 1991.

Decrease in rates observed in Europe to Canada trade over the past four years.

Over the 1988-1991 period, total freight rates for all commodities in the Europe to Canada trade declined by as little as five per cent in the case of mineral water to as much as 52 per cent on military personal effects. In the case of most commodities, reductions in their basic rates contributed most to the overall decline in total rates; however, decreases in surcharges contributed more to the decrease in rates in the case of consolidated cargo and mineral water.

Terminal service charges were significant in European trade.

Intermittently from 1988 through 1991, the total rates of some major commodities were inclusive of CAFs, BAFs and TSCs. However, depending on the conference, BAFs and CAFs combined ranged from one to 6.5 per cent of a commodity's total rate and were seen to fluctuate over the four year period. TSCs, on the other hand, ranging from ten to 24 per cent of total rates, were subject to considerably less fluctuation.

Over the past four years, conference freight rates in the U.K./Continent to Canada trade would appear to have been adversely affected by keen competition between conference carriers and strong non-conference carriers such as Maersk and Evergreen, among others. Over-tonnaging in the trade, with lines undercutting each other to improve market share, has also combined to drive rates down.

Far East - Eastern and Western Canada

The same four conferences as in the past four years plied the Transpacific route in 1991. On the inbound leg, the JEC and the JWC called from Japan, while member lines of ANERA provided services to east and west Canada from all other Pacific Rim countries. In the other direction, the CWRA carried Canadian exports from both coasts to the Pacific Rim. All conferences operating in Transpacific trade quote tariffs in U.S. dollars.

Inbound Japan conferences continued to use open rates.

Both the JEC and the JWC announced one rate increase of $88 per TEU or $125 per FEU in 1991. However, it was impossible to determine the effect of the announced increase on 1991 commodity freight rates, as both conferences employ "open rates" (i.e., member lines are free to set their own rates); the JWC also files with the Agency "minimum revenue requirements" which only set a "floor" for rates. However, surcharges imposed by these conferences varied from 1990 to 1991, with BAFs dropping significantly and destination service charges remaining constant.

CAFs imposed by the JEC and JWC exhibited a net increase of eight per cent in 1991 based on an initial increase at the end of 1990 and a steady fall through 1991.

In the inbound Transpacific trade, the tariff analysis focussed on changes in ANERA freight rates in current terms from 1988 through 1991 for five principal commodities carried from Korea to western and eastern Canada, by an all water route, and to eastern Canada via minilandbridge. Rates tracked over the period were the lowest in the tariff for the commodities selected and, since July 1988, these were consistently I/A rates.

Most ANERA rates increased slightly in 1991.

Basic rates for footwear to eastern Canada by an all water route and all movements of toys, rattan furniture and electrical goods from Korea increased by six to 12 per cent in 1991, reflecting the GRI of $150 per TEU or $200 per FEU instituted by ANERA in 1991. However, a decrease in fuel surcharges and the effect of a stronger Canadian dollar in the conversion of rates from U.S. to Canadian currency combined to partially offset the effect of the GRI and limit net increases in the total rates of these commodities to two to seven per cent from 1990 to 1991.

Total rates for textiles and footwear to eastern Canada via minilandbridge and western Canada, and textiles from Korea to eastern Canada by water decreased by two to five per cent in 1991 as a result of little or no increase in basic rates for these commodities, a reduction in fuel surcharges and exchange rate conversions.

Judging from the increase in most rates examined in this trade in 1991, it would appear that the TSA, with its goal of rate stabilization and restoration, may have had its intended impact on eastbound rates. The magnitude of rate increases, on the other hand, continued to reflect the degree of conference/non-conference competition and continuing excess carrying capacity on the route.

ANERA changed fuel surcharge structure.

ANERA imposed a number of surcharges on shippers in 1991. Destination Delivery Charges (DDCs), representing some 12 to 17 per cent of total rates of major commodities, remained unchanged in 1991. BAFs doubled by the end of 1990 in anticipation of the Gulf War and remained unchanged through the first half of 1991. In late 1990, ANERA introduced the "Shoreside Operations Fuel Adjustment" (SOFA), pegging it at one-half the BAF and later combining the two in mid-1991 to form a "Fuel Adjustment Factor" (FAF). The FAF was assessed at one-half the combined value of the BAF and SOFA, and remained constant until October 1991 at 25 per cent below its level of October 1990. Fuel surcharges represented anywhere from three to ten per cent of total rates in 1991.

Changes in ANERA's freight rates varied from 1988 through 1991.

After converting from U.S. to Canadian dollars, increases in total rates of major moving commodities in the Korean trade ranged from four to 29 per cent in the period 1988 through 1991. These increases are attributed to net increases in basic rates ranging from three to 36 per cent as a result of annual GRIs instituted by ANERA and the introduction and increases in applicable fuel surcharges over the period. DDCs remained unchanged throughout the period and, in the case of some commodities, were incorporated into their basic rates. CAFs were not a factor in Korean trade as ANERA did not use them during the period examined.

Eastern and Western Canada - Far East

Analysis of the CWRA tariff focussed on changes in the lowest basic and total all water, minilandbridge (MLB) and interior points (IPI) rates in current terms for the conference's major commodities outbound from east and west Canada to Korea and Japan from 1988 through 1991.

Large majority of CWRA rates increased in Canada to Korea trade in 1991...

An announced GRI and other selective rate increases contributed to varying degrees to the increases of seven to 28 per cent in 1991 in 14 of the 18 basic commodity rates tracked in the Canada to Korea trade. The reduction of BAFs and CAFs during the year partially offset the increase in Origin Receiving Charges (ORCs) as well as the increases in basic rates, yet 14 total rates still increased between one and 23 per cent. The effect of ORCs on rate levels changed significantly according to whether their status was one of inclusion in the basic rate or that of an add on. Surcharges combined accounted for as much as 22 per cent of total rates in this trade in 1991.

Three basic rates which decreased in 1991 experienced even larger reductions in their total rates, ranging from eleven per cent in the case of malt moved by water from Vancouver to 27 per cent for MLB movements of whey powder out of Montréal, primarily due to the drop in surcharges. A fourth basic rate, for woodpulp movements out of Vancouver by water, decreased by 11 per cent; but, its total rate increased as a result of ORCs becoming add ons to the basic rate, offsetting the reduction of the other surcharges. Conversely, in the case of masking tape from Toronto, the inclusion of ORCs in the basic rate at the end of 1991 resulted in an increase of seven per cent while the total rate decreased by nine per cent.

Canadian exporters enjoyed further reductions, ranging from two to four per cent, in actual total rates paid for the transport of major commodities by the CWRA in 1991 as a result of the conversion of CWRA rate quotes in U.S. dollars to a strengthened Canadian dollar.

... and from 1988 through 1991.

Over the past four years, the majority of CWRA freight rates tracked in the Canada to Korea trade appeared to increase. Indeed, a total of 11 basic rates exhibited increases from 1988 through 1991, with five increasing from 20 to 50 per cent and the other six rising by more than 50 per cent. In contrast, seven basic rates experienced a decline over the period, ranging from 13 per cent for newsprint by water from west Canada to 49 per cent for newsprint by water from east Canada. The introduction of CAFs and BAFs and an increase in ORCs over the four year period had the effect of enhancing the magnitude of the increases seen from 1988 through 1991 in 11 basic rates and, alternatively, reducing the decreases experienced in other basic rates over the period. On the other hand, the increasing strength of the Canadian dollar over the years partially offset the effect of surcharges as the significant increases observed in 12 of the 18 rates tracked were reduced by 15 to 20 per cent, while rates declining over the period were further discounted by an equal percentage.

CWRA rates in Canada to Japan trade increased in 1991...

Patterns in CWRA rate changes in the Canada to Japan trade from 1990 to 1991 were similar to those seen in the Korean trade. Sixteen of 24 basic rates applicable to major commodities in the Japan trade increased from five to 42 per cent in 1991. The range of increases in corresponding total rates was slightly narrower (i.e., by no more than two per cent) as a result of a slight net decrease in surcharge levels, which accounted for as much as 23 per cent of total commodity rates. Of the eight basic rates experiencing decreases between two and 29 per cent in 1991, seven of their corresponding total rates exhibited a similar range of decreases and one total rate remained unchanged. Converting from U.S. to Canadian dollars also curbed increases and accentuated decreases in basic rates in 1991 by two to four per cent in both cases.

... and from 1988 through 1991.

Similarly, changes in freight rates in the Japan trade in the period 1988 through 1991 paralleled those observed in the Korean trade. Seventeen basic rates associated with major commodities increased between one and 30 per cent, two between 30 and 50 per cent, while two others increased by more than 50 per cent in the four years; only three decreased -- by nine, 12 and 40 per cent -- over the same period. The introduction of BAFs after January 1988, an increase in ORCs and slight increases in CAFs over the four years, in conjunction with basic rate increases, were responsible for five total rates displaying increases between one and 30 per cent, eight others increasing by 30 to 50 per cent and another seven rising by 51 to 79 per cent.

Some rate anomalies existed in the CWRA.

A decline in total rates for frozen herring and asbestos from Montréal reflected, for the most part, the failure of surcharge increases to reverse the decreases these commodities experienced in basic rates prior to 1991. Reflecting the way in which surcharges were imposed, woodpulp, whose basic rate decreased, experienced an increase in its total rate; in contrast, peat moss from Halifax exhibited a five per cent increase in its basic rate and a two per cent decrease in its total rate. Again, currency conversions from U.S. to Canadian dollars reduced the magnitude of total rate increases and increased the reductions in total rates by some 15 to 20 per cent from 1988 through 1991.

Surcharges were a significant component of CWRA freight rates.

The CWRA imposed a variety of surcharges from 1988 through 1991 on commodities moving in outbound Transpacific trade. First introduced in 1989, BAFs, which were identical in the Korean and Japanese trades, steadily increased throughout 1990 but dropped substantially to 1989 levels by April 1991, remaining at this level until October 1991. ORCs, also identical in both trades, alternated between periods of increase and constancy from 1988 through 1991. The Korean CAF, introduced in mid-1988, initially increased and then decreased in 1990; at the end of 1991, it sat at one per cent below its October 1990 rate. The Japanese CAF has fluctuated over time to settle, in October 1991, at one per cent above its January 1988 level.

The past four years have witnessed a shift in the relative importance of the inbound and outbound Transpacific trades which has, in turn, affected both rate and capacity levels. The once dominant inbound trade has, in recent years, been forced to rely on broad-scoped agreements such as the TSA in a somewhat successful attempt to bolster freight rate levels and bring carrying capacity more in line with demand for liner services. On the other hand, the resurgence of North American exports to the Far East has translated into increased rate levels and maximum load factors for liner carriers serving the route, significantly raising the profile of the outbound Transpacific trade.

Effectiveness of *SCEA*

Service Contracts

Service Contract
A confidential agreement by which a shipper commits a minimum volume of cargo, over a fixed time period, to conference member line(s) in exchange for a rate lower than the standard conference rate and/or a defined service level.

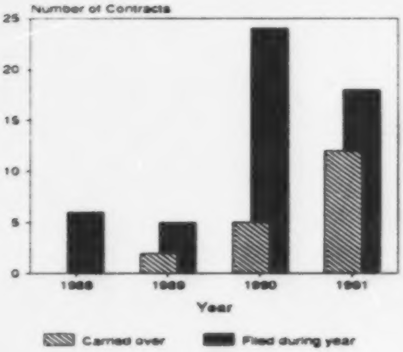
A total of 18 service contracts were filed with the Agency in 1991, six fewer than in the previous year. Of the 24 contracts filed in 1990, one-half carried over into the next year, with all but one expiring before the end of 1991. Of the 18 service contracts filed in 1991, eight represented renegotiated contracts which had been carried over from 1990. Three contracts filed in 1991 actually expired in that same year (Figure 6.7).

Of the 24 conferences serving Canada, the same three conferences as in 1990 employed service contracts, accounting for three export and 15 import contracts filed in 1991. Agency survey results further revealed that volumes moved under service contracts were a significant proportion of the carryings of two of the three conferences. Exports moved under service contracts in 1991 included primarily raw materials and some semi-processed goods; on the import side, service contracts were negotiated, for the most part, for the movement of manufactured goods.

There has been limited use of service contracts since the enactment of SCEA.

Despite the proliferation of service contracts in U.S. liner trades, the frequent and widespread use of these contracts in a Canadian context has not materialized. From a meagre base of six filings in 1988, the number grew to 24 in 1990 but dipped to 18 in 1991. Over the four year period, import contracts dominated contract filings and have, with the exception of 1989, outnumbered export contracts by at least two to one in any given year. Service contracts have been utilized by as few as two conferences and as many as five from 1988 through 1991. It is estimated that cargo moved under service contract rates is a minuscule proportion of the total tonnages moved by conferences serving Canada.

FIGURE 6.7
Service Contracts Filed with the Agency



The lack of use of this rate option in Canadian trade would not appear to be attributed to one specific cause but rather to a combination of factors. The ability of some Canadian shippers to obtain preferential rates through informal negotiations with conference member lines and the extensive use of I/A rates, especially in the Transpacific, have severely restricted the scope of use of service contracts in Canadian liner trade. Additionally, policies prohibiting the signing of service contracts by member lines adopted by some conferences, as well as market conditions on various trade routes, have adversely affected the use of service contracts, leaving shippers and carriers unwilling to enter into such formal rate agreements that may prove to be inflexible under certain circumstances. Finally, shippers' relative unfamiliarity with rate options available to them under *SCEA*, the reliance of some shippers on freight forwarders for transportation arrangements, and negative experiences of liner operators with complexities related to myriad service contracts in U.S. liner trades, all contributed to making service contracts an ineffective and little used rate option since the enactment of *SCEA* in 1987.

Independent Action

Member lines of 13 of 24 tariff filing conferences made use of I/A in Canadian trade in 1991. Member lines of a new conference, the Eastern Canada South American Rate Agreement (ECSA), used I/A for the first time in 1991. On the other hand, member lines of the Canada-U.K. and the Canadian Continental Eastbound Freight Conferences abandoned the use of I/A in 1991. The Canadian Group Agreement, whose member lines used I/A in 1990, did not operate in 1991. Member lines of the CWRA and ANERA continued to quote I/A rates extensively in the Transpacific trade, while they were used only occasionally or in special circumstances by member lines of conferences operating on all other Canadian liner trade routes in 1991.

Independent Action (I/A)

Action by a conference member line of setting a rate or service item different from the conference's existing tariff provisions. *SCEA* provides for the taking of I/A by any member line subject to informing the conference which cannot demand more than 15 days notice.

Conference Use of Independent Action

Member lines of 13 conferences filed I/As with the Agency in 1991. The Inter-American Freight Conference and the New Zealand Pacific Coast North American Shipping Lines Freight Conference, whose member lines had used I/A in 1990, were not identified as having used this rate option in the 1990 Review. Member lines of the *ECSA*, a new conference, began using I/A for the first time in 1991.

Ranked according to the number of I/As filed in 1991, from the greatest to the fewest, the member lines of the following conferences continued to use I/A in 1991:

- Canada Westbound Rate Agreement (CWRA; formerly TWRA)
- Asia-North America Eastbound Rate Agreement (ANERA)
- West Coast/Middle East Rate Agreement (WAME)
- Inter-American Freight Conference - Sections A, B, C and D
- American West African Rate Agreement (AWAFC)
- Continental Canadian Westbound Freight Conference (CCWFC)
- Canadian North Atlantic Westbound Freight Conference (CNAWFC)
- 8900 Lines Agreement (8900)
- Mediterranean-North Pacific Freight Conference (MEDPAC)
- New Zealand Pacific Coast North American Shipping Lines Freight Conference (NZ/PAC-NA)
- Western Canada Europe Conference (WCEC)
- Eastern Canada-Caribbean Rate Association (ECCRA)

The inclusion of I/As in some conference tariffs was difficult.

The tariff structures of the JEC and JWC, the Pacific Coast/Australia-New Zealand Tariff Bureau (PCATB), the Mediterranean-North Pacific Freight Conference (MEDPAC) and the Canada West Mediterranean Discussion Agreement (CWMDA) make these conferences' use of I/A largely a non-issue. As a result of the inclusion of the mandatory right of I/A provision in *SCEA*, member lines of the JEC and the JWC adopted an "open rates" tariff, thus eliminating the need for I/A rates. The PCATB also made use of "open rates" to a more limited extent in the movement of containerized cargo. The MEDPAC's member lines, using I/A infrequently, appear to use their own individual tariffs, leaving them free to change their respective tariffs at any time without taking I/A in order to accommodate shippers or adapt to changing market conditions. As well, the CWMDA appears to be a loose configuration of lines with members agreeing on a common tariff for very few commodities, preferring instead to quote their own individual line rates in moving the majority of their freight.

I/As took the form of rate actions...

An analysis of 1991 tariff filings again revealed that, as in 1990, the large majority of I/As filed took the form of rate actions. Conference member lines also filed I/As under the guise of "emergency" rates, minimum quantity rates, "all inclusive" rates, rates offered by individual lines to specific locations within a conference's scope, as well as specifications related to conditions of service.

...were "exclusive" or "multiple" in character...

I/As in Canadian trade were found to range from relatively simple, offering a straight discount from the standard conference tariff on a specific routing, to very complex, dictating not only a specific routing but also a shipping format, service inclusions, a minimum weight and a designated origin and/or destination. Most I/As were also "exclusive" to a single line in a conference or common to a number of lines ("multiple"). In a few instances, standard tariff rates, by virtue of their exclusion of one or more member lines from their use, effectively became I/A rates as well.

...and on occasion higher than standard conference rates...

There were still some isolated examples in 1991 of conference member lines filing I/As above the standard conference rate. In the Canada to South America trade, one ECSA member line consistently filed I/As 16 to 30 per cent above the standard tariff rates, which the three other member lines more often than not matched, with the result that standard rates became unavailable as the higher I/As prevailed.

...but normally offered a wide range of discounts.

Determining the magnitude of discounts received by Canadian shippers as a result of these rate actions is difficult. Indeed, conferences making only minimal use of I/As used them almost exclusively as special devices, which cannot often be compared to standard conference tariffs. However, on average, the use of I/A rates brought Canadian shippers discounts on ocean freight rates ranging from as little as four per cent to as much as 71 per cent and varied according to trade area, conference, commodity and conference member line.

I/A numbers were down in the CWRA.

Again in 1991, the CWRA and ANERA led the way with much more widespread use of I/A than all other conferences operating in Canadian trade combined. In the CWRA, short term I/As (90 days or less) exclusive to individual lines dominated in 1991, accounting for approximately one-half of all filings. Despite the restructuring of its tariff in 1990, the majority of CWRA member lines still filed close to two thousand I/As in 1991. To what extent these numbers actually changed over those of 1990 is complicated by the fact that a number of CWRA I/As remained in the tariff long after they expired, making an accurate count of active I/As difficult. It would appear, however, that the number filed by CWRA member lines in 1991 decreased by approximately 46 per cent from 1990. The tariff analysis also detected considerably more I/A activity associated with commodities other than those identified as major movers in 1988, suggesting a shift in the relative importance of commodity groups in Transpacific trades, at least in 1991. As well, 1991 saw significant growth in the number of I/As taken by an increased number of CWRA member lines participating in trade with the People's Republic of China.

Few new I/As filed by ANERA member lines.

In ANERA's case, I/As being used by its member lines appear, for the most part, to be extensions to those that have been in its tariff for a number of years rather than new I/As. Indeed, original standard conference rates have become "paper rates" as they have gradually been replaced with more specific I/A rates that have effectively become the new conference standard. The trend toward stabilization reflected by the reduction of differentials between standard conference rates and I/As in ANERA became more pronounced in 1991. I/A activity in the conference seemed limited to increases in existing I/A rates associated with GRIs taken by the conference in 1991.

In general, I/A activity was, at best, no greater than in 1990.

I/A activity appeared no greater and maybe even lower than in 1990 on all Canadian liner trade routes as the number of conferences using this rate option did not increase in 1991. Despite a reduction in I/A numbers in 1991, significant volumes of CWRA freight still moved on these rates. While ANERA also still moved significant tonnage on I/A rates, the influence of the TSA began to be felt as differentials between I/As and standard conference rates remained relatively constant in 1991.

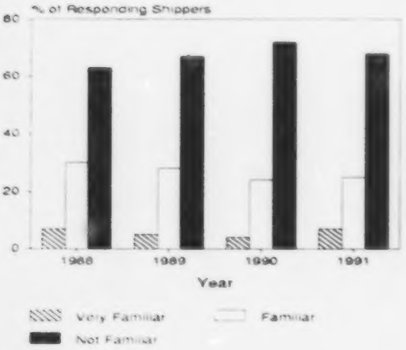
When analyzing the use of I/A in the period 1988 through 1991, it should not be forgotten that some conferences serving Canada were already using I/A prior to the enactment of *SCEA*. While there is no doubt that, in the absolute, I/A activity increased in terms of the number of actions taken and conferences using it, the question is to what extent did the use of I/A in this period exceed that prior to 1988. Analysis suggests that its frequency and extent of use (in terms of numbers and volume of cargo moving on these rates) did increase in the Transpacific trade but showed only marginal and intermittent gains on all other Canadian liner trade routes over the period. I/As, for the most part, continued to be associated with discounts from the standard conference tariff rates, were taken on a wide range of commodities and used by a majority of conferences' member lines in each of the four years between 1988 and 1991. However, the extent to which these rates could be practically employed by some conferences was limited as a result of the structure of their respective tariffs; yet, in most cases, these tariffs offered Canadian shippers rate options akin to what they might have obtained through I/A rate actions. As well, the constant threat of use of I/A by conference member lines throughout the 1988-1991 period undoubtedly influenced conference rate-making decisions to the benefit of Canadian shippers.

Perspectives on *SCEA*

Shippers' Perspective

Although the figures have varied over the years, the general results of Agency Shippers' Surveys conducted since 1988 have remained relatively unchanged. Results of the 1991 survey showed that for the fourth year in a row, a majority of respondents were unfamiliar with *SCEA* (Figure 6.8), although the proportion had decreased to 68 per cent from 72 per cent the previous year. Smaller firms tended to be less familiar with the Act than larger firms; regardless of firm size, shippers who relied predominantly on the services of freight forwarders to move their cargo appeared to be less familiar with the Act than those who made their own arrangements. Survey results also revealed that exporters were more familiar with *SCEA* than importers.

FIGURE 6.8
Shippers' Familiarity with SCEA



For the fourth consecutive year, a majority of shippers familiar with the legislation, and the largest proportion in four years, reported that *SCEA* in general had no discernable effect on their operations (Figure 6.9). The proportion of shippers rating the Act "not beneficial" increased to 25 per cent in 1991, a significant change from nine per cent in 1988. As can be seen in Table 6.1, there were also significant decreases in the percentages of shippers who described *SCEA* and its provisions as "beneficial" in 1991. Similarly, the small minorities of responding shippers who viewed *SCEA*'s provisions as "not beneficial" also declined slightly in 1991.

FIGURE 6.9
Shippers' Assessment of the Effect of *SCEA* in General on Their Operations

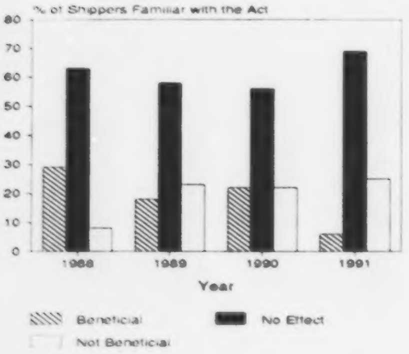


TABLE 6.1
Shippers' Assessment of Key *SCEA* Provisions

	Beneficial %			No Effect %			Not Beneficial %		
Effect of	**1989**	**1990**	**1991**	**1989**	**1990**	**1991**	**1989**	**1990**	**1991**
Service Contracts	17	29	9	68	62	84	15	9	7
RIndependent Action	34	42	30	55	51	66	11	7	4
Notice Period	29	31	15	65	58	76	6	11	9R
Complaint Resolution	9	9	2	86	77	89	5	14	9

Shippers reported little use of service contracts.

In each survey year since 1988, proportionately more shippers have approached conference carriers regarding the negotiation of service contracts. In 1991, 35 per cent of shippers familiar with *SCEA*, up from 20 per cent a year earlier, took this step. However, as in 1990, survey results indicated that less than 15 per cent of these shippers reported the use of service contracts and none of them reported moving the majority of their freight under service contract rates. It should be noted that the number of shippers having negotiated service contracts may be overstated to some extent as survey results suggest that shippers are still confusing service contracts signed with a conference and on file with the Agency, with I/As taken by an individual shipping line, or with other types of rates offered by both conference and non-conference carriers.

Over 40 per cent of shippers reported using I/A rates.

The proportion of shippers approaching conference shipping lines regarding I/As rose for the fourth consecutive year to just over 42 per cent, up from almost 30 per cent in 1990. I/A rates were used considerably more often than service contracts in Canadian trade, particularly for exports, as 38 per cent of responding shippers reported obtaining I/A rates in 1991, with almost one-third of these shippers moving a majority of their export and import volumes in this fashion.

Adequacy of Non-conference Services

Almost one half of responding shippers considered non-conference shipping services to their major trading areas adequate in 1991; only 13 per cent found them inadequate, while 40 per cent did not offer an opinion.

Conference vs. Non-conference Rates

In slightly higher proportions than in previous surveys, two thirds of Canadian exporters and importers, who used both types of rates, reported non-conference freight rates lower than comparable conference rates by one to ten per cent.

Shippers' Ratings of Conference and Non-Conference Levels of Service

As has been the case over the past three years, price/rate was by far the factor considered most important by shippers in the choice of a shipping line. Well behind, but still significant, were, in order of importance, frequency of sailings, overall quality of service, transit time and space availability.

Shippers' ratings of rates charged by conference and non-conference carriers were significantly different in 1991 than in 1990. Almost 80 per cent, up from 72 per cent the previous year, rated non-conference carriers "good" to "very good" on price/rate while just under one-half awarded conference carriers similar ratings. However, 16 per cent of responding shippers, the highest proportion in four survey years, chose to rate conference carriers "poor" to "very poor" on this service factor. While all carriers were rated favourably by a majority of shippers for most other service criteria in 1991, conference carriers fared better on frequency of sailings and transit times.

Most shippers saw no change in service levels, space availability and ancillary charges.

The 1991 survey also sought shippers' views on changes observed in liner service levels, their ability to secure space for their cargoes and conference ancillary charges over the four years since the implementation of *SCEA*. The majority of shippers familiar with *SCEA* reported no changes in service levels, space availability or ancillary charges from 1988 through 1991. Of the minority of shippers who did note changes regarding the level of service, equal numbers responded positively of improved frequency of sailings and transit times, as did negatively of reductions in vessels, space and container availability. Reduced space as a result of stabilization agreements and service rationalization was mentioned by the 22 per cent of shippers who spoke negatively of changes in their ability to secure cargo space. Changes in ancillary charges were also viewed negatively by one-third of responding shippers who claimed that these charges were used merely to increase rates and suggested that there be one "all inclusive" rate.

Shippers expressed little support for continuation of SCEA.

Little support was evident from the 1991 Shippers' Survey results for the continuation of exemptions for shipping conferences serving Canada from the provisions of the *Competition Act*, nor did shippers express a collective view in favour of these exemptions being extended to include discussion/stabilization agreements. On the other hand, shippers supported the extension of the mandatory right of conference member lines to take I/A to include I/A on service contracts as well as the retention of the confidentiality of service contracts on file with the Agency.

As in the past three years, some shippers continued to call for the elimination of *SCEA*, the freeing of market forces to set rates, and an enhancement of their ability to negotiate rates and contracts with conference member lines on an individual basis.

Perspective of the Designated Shippers' Group

The Canadian Shippers' Council (CSC), the only group designated to represent shippers since the enactment of *SCEA* in 1987, again raised a number of issues in the context of the legislation.

The Canadian Shippers' Council questioned legitimacy of stabilization agreements...

As in 1990, the CSC questioned the legitimacy of stabilization agreements in Canadian liner trade. The Council expressed extreme frustration at the stalemate that has resulted since the Agency's ruling that the Agency had no power to grant or deny exemptions to these agreements under *SCEA*, and Consumer and Corporate Affairs' (CCA) subsequent contention that CCA had no jurisdiction in the matter unless the Agency provided CCA with a formal legal opinion to the effect that stabilization agreements are not exempted from the *Competition Act*. In the Council's view, the "loose wording" in *SCEA* will continue "to allow conferences in some trades to control both services and rates" not only for their own members but for non-conference carriers as well. The CSC called for the intent of *SCEA* to be reflected in the wording of the Act, stating that if the matter is not resolved, Canadian exporters and importers will be faced with fewer options in liner trades resulting in "increased costs and service burdens".

... and viewed I/A and service contracts as ineffective.

The Council's views on I/As and service contracts did not vary much from those expressed in 1990. It reiterated that neither of these pricing options were used any more in 1991 than in 1990 as, in the Council's view, "conferences in Canadian liner trade made every effort to prevent member lines from taking I/A for Canadian shippers". Conferences, the Council argued, "succeeded in eliminating yet another means of letting market forces dictate cost and service levels in Canadian liner shipping".

The CSC pointed out that a lack of formal complaints by shippers in 1991 should not be construed as increased satisfaction with the conduct of conferences serving Canada. Rather, the Council sees this development as a resignation of shippers to an "unworkable dispute resolution process" that "has absolutely no practical value".

The Council met with North Atlantic conferences.

In 1991, the CSC met formally on three occasions with the North Atlantic conferences to discuss such matters as service rationalization, cargo space and equipment availability, frequency, levels of and notice period for GRIs, BAF and CAF application formulae, and terminal service charges. Despite the atmosphere of cooperation and the regularity of the meetings, the Council reported little in the way of "tangible results" vis-à-vis rate matters. In contrast, in the Transpacific trades, the CSC was still attempting to arrange a meeting with the CWRA at year end.

From the Council's perspective, the change from the TWRA to the CWRA in September was of little significance as decisions related to Canadian trade would continue to be "made in the U.S.A. ... based on U.S. considerations and philosophy".

The Council called for more transparency in ancillary charges.

The CSC did report reaching an agreement with the North Atlantic conferences on a formula for BAF calculations in 1991. Despite this breakthrough, the Council still strongly suspects that ancillary charges are used as revenue generators by conferences when GRIs fail to meet their objectives. The situation has been made worse, according to the Council, in that *SCEA* contains no provisions or means requiring conferences to provide more transparency in and justification for changes in ancillary charges.

Over the past four years, the CSC has argued that *SCEA* and its provisions have been ineffective in meeting the needs of Canadian shippers and in combatting the perceived advantages of shipping conferences serving Canada. Specifically, I/A and service contracts, dispute resolution mechanisms, the provision by conferences of information for the satisfactory conduct of a meeting, and stabilization agreements within the scope of *SCEA*, have not lived up to the expectations of the designated shippers group in Canada.

FIGURE 6.10
Freight Forwarders' Familiarity with *SCEA*

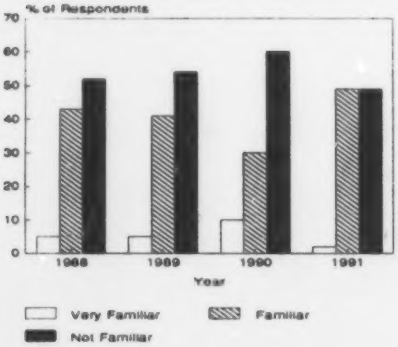
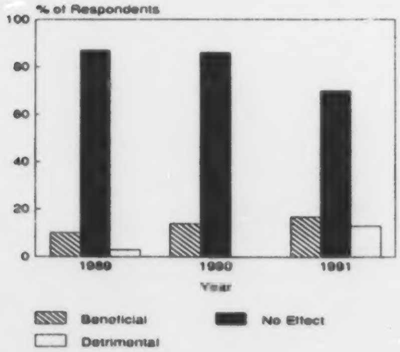


FIGURE 6.11
Effect of *SCEA* in General on Freight Forwarders' Operations



Freight Forwarders' Perspective

For the first time in four years, the results of the Agency's 1991 Survey of International Freight Forwarders showed that a majority, albeit slight, of respondents were familiar with *SCEA*. As in previous years, smaller forwarders tended to be less familiar with the legislation than larger ones. Over 70 per cent of those familiar with the legislation said that *SCEA* in general had no effect on their operations in 1991. This proportion was down significantly from the 86 per cent seen in the previous year and was accounted for by an increase in the proportion of forwarders holding the view that the Act was detrimental to their operations in 1991.

Since 1988, forwarders have consistently considered price/rate to be the most important criterion when selecting a shipping line; 1991 was no exception as 86 per cent again rated this factor as very important. Following well behind, but also considered important, were, in order of importance: frequency of sailings, transit times, space availability and overall service.

More forwarders continued to use and consign larger volumes of freight to conference lines than to non-conference lines in 1991. Nevertheless, most forwarders viewed the latter as viable alternatives to the former on all Canadian liner trade routes. In rating levels of service, conference carriers were described as providing "good" to "very good" services by 84 per cent of forwarders while 61 per cent gave similar ratings to non-conference lines.

While almost all forwarders, a marginal increase from 1990, reported using non-conference rates in 1991, only 50 per cent, down from 78 per cent in 1990, reported their frequent or exclusive use. Conference rates were used only slightly less than non-conference rates, but with less frequency, by forwarders in 1991. According to respondents, the differential between non-conference and conference rates increased to some extent in 1991 with the former reported to be six to 15 per cent lower than the latter. Compared to previous years, conference rates were employed by proportionately more forwarders in 1991 but not to the level seen in 1989.

Conference and non-conference inbound and outbound rates were found to be "within norms" by a majority of forwarders in 1991. Smaller proportions of forwarders reported "stable" outbound conference and non-conference rates in 1991, while slightly larger proportions of forwarders than in 1990 reported "stable" conference and non-conference rates in Canadian inbound liner trades.

Most Canadian forwarders transshipped small volumes through U.S. ports.

Continuing the moderately increasing trend seen since 1989, 95 per cent of responding freight forwarders indicated that they had transshipped some portion of their outbound cargo through U.S. ports in 1991, while 82 per cent of respondents, a proportion relatively unchanged since 1989, moved inbound cargo in the same manner. In most cases, inbound and outbound transshipments represented one to ten per cent of a forwarder's total shipments. Confirming the Agency's survey results, figures obtained from the PIERS data revealed that over 80 freight forwarders doing business in Canada transshipped a minimum of 200,000 tonnes or 32,200 TEUs of Canadian import cargo and 20,500 tonnes or 2,500 TEUs of export cargo through U.S. ports in each of the years 1989 and 1990.

The majority of forwarders reported I/A had no effect.

When considering responses of forwarders familiar with *SCEA*, just over half reported approaching conferences regarding I/A in outbound trade and 33 per cent in inbound trade. About 70 per cent of this group used I/A rates in 1991, a large drop from 87 per cent in 1990, yet still well above the figures for 1988 and 1989. The 17 per cent of forwarders using these rates "exclusively" or "frequently" matched the 1989 figure, but was again well below that of 1990. The majority of forwarders indicated that less than ten per cent of their cargo moved under I/A rates which were generally one to five per cent lower than standard conference rates, a differential less than that seen in 1990. Fifty-five per cent of forwarders reported that I/A had no effect on their operations in 1991, while twice as many of the remainder were of the view that it was beneficial rather than detrimental. Forwarders' comments on I/A were mixed, as some felt that it was a good bargaining tool and others contended that conference lines were unwilling to negotiate this type of rate.

Loyalty Contracts

A few freight forwarders were still using loyalty contracts in 1991 although quantities of cargo moving under these rates were smaller than in previous years. This type of contract, whereby shippers/forwarders obtained lower freight rates from conference member lines in exchange for committing all or a fixed proportion of their cargo to the conference, has all but disappeared in Canadian liner trade as a result of a revision in *SCEA* in 1987.

Contrasting the use of I/A, service contracts were used "exclusively" or "frequently" by very small proportions of forwarders familiar with *SCEA* in 1991, showing little change from previous years. About three-quarters of forwarders were of the view that service contracts had no effect on their operations in 1991 or over the four years since the legislation came into force; the remaining quarter were evenly divided in describing them as beneficial or detrimental.

A new question in the 1991 survey asked forwarders whether they had noticed any changes or encountered any problems in liner shipping in the past four years. Almost half reported that conference service levels had changed for the worse since 1988. Sixty per cent of forwarders also observed negative changes in the levels, magnitude and frequency of changes in ancillary charges; another 46 per cent felt that their ability to secure space for their cargoes on conference vessels had deteriorated since 1988.

The majority of forwarders felt that SCEA should be retained and/or modified.

The Agency also polled forwarders on the future of *SCEA* in light of the 1992 Comprehensive Review of the Act. Just over 40 per cent expressed the view that *SCEA* should be retained in its present form. However, another 35 per cent called for the outright elimination of the legislation, labelling it obsolete. The remaining 22 per cent of forwarders felt that it should be retained but modified, suggesting as they have over the past four years, that its I/A provision be made more flexible.

General comments offered by forwarders in 1991 continued to reflect their desire to be able to negotiate directly with carriers. They also expressed concerns about seemingly arbitrary changes in surcharges, hidden additional charges, a lack of committed space and the low frequencies of sailings on the part of conference carriers.

Port Terminal Operators' Perspective

In an effort to obtain their views on legislative reforms contained in the *NTA, 1987*, the *MVTA*, and *SCEA*, the Agency surveyed port terminal operators for a second consecutive year in 1991. Completed survey forms were received from a cross-section of terminal operators in Québec and Ontario, and on the east and west coasts.

While slightly more port terminal operators were familiar with *SCEA* in 1991 than in the previous year, the majority of those surveyed were still unfamiliar with the legislation. However, the responses of a portion of those unfamiliar with *SCEA*, especially those operating bulk terminals or terminals handling primarily transborder and/or domestic traffic, stem from the fact that this Act has no relevance to their operations. It also appears that terminal operators who described themselves as unfamiliar with *SCEA* in 1991 also tended to be, more often than not, unfamiliar with both the *NTA, 1987* and the *MVTA*; similarly, those who said they were familiar with *SCEA* tended to be familiar with the latter two statutes as well. Operators located in Canada Ports Corporation (CPC) ports and harbour commissions were proportionately more familiar with *SCEA* than those under other jurisdictions, as were operators of container, forest products and general cargo/breakbulk terminals compared to operators of other types of terminals. Also, larger terminal operators were more familiar with the Act than smaller operators completing the survey.

When asked what effect *SCEA* had on their terminal operations in 1991, 90 per cent of respondents who expressed an opinion said that the legislation had no effect -- the same proportion as in the survey's first year. Of the remainder, proportionately more operators reported that the Act had a negative effect than a positive one, a result identical to that seen in 1990.

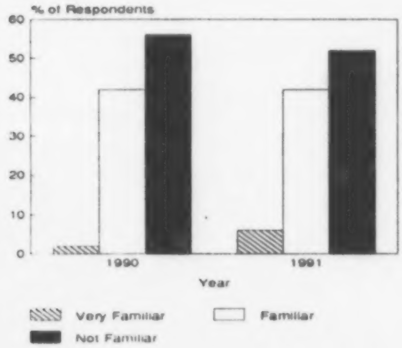
There was also no discernable variation from 1990 to 1991 in terminal operators' perceptions of *SCEA*'s impact between operators describing themselves as familiar with the Act and those who said they were not.

The 1991 survey also inquired about the effect of *SCEA* over the past four years. Of those who expressed an opinion, close to 90 per cent reported that the Act had no effect on their operations since its enactment. Of the remainder, twice as many noted a positive effect of the legislation as noted a negative one. The majority of operators familiar with *SCEA* were also of the view that the Act had no perceivable effect over the period 1988 through 1991.

In terms of marine transport services to and from their terminal, nine out of ten responding operators rated inbound liner services "good" to "very good". Shipping lines received similar but less frequent "very good" ratings on their provision of outbound liner services. These results parallel those of the 1990 survey, except that smaller majorities of terminal operators considered both inbound and outbound shipping services "good" to "very good" in 1990.

Over two-thirds of responding terminal operators indicated that the number of shipping lines calling at their terminals had not changed or had increased from 1990. They cited, among others, increases in production, growth of export sales markets, and changes in trade route patterns and sailing frequencies of shipping

FIGURE 6.12
Familiarity of Port Terminal Operators with *SCEA*



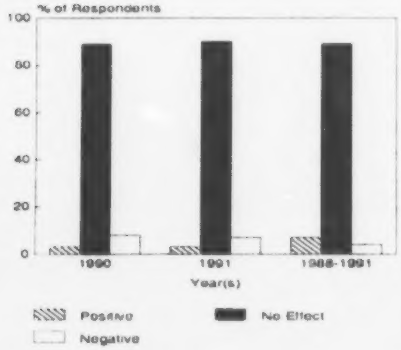
1991 Port Terminal Operators Survey - Profile of Respondents -

- Just over half of responding terminals came under the jurisdiction of the Canada Ports Corporation (CPC), while the remainder of reporting terminals were administered by Transport Canada's Public Ports and Harbours Directorate or were harbour commissions, privately owned or under municipal or provincial jurisdiction.
- Responses were received from dry and liquid bulk terminals, as well as terminals handling forest products, general and breakbulk cargo, containers and ro-ro freight.
- Two-thirds of terminals surveyed had less than 50 employees, tended to move lower volumes of freight and to earn less revenue than the other one-third.
- The majority of terminals involved in either transborder or international trade handled export freight, or both import and export cargo; a very small minority handled imports exclusively and about 20 percent were strictly involved in domestic movements.

lines as reasons for the increased number of vessels calling at their facilities in 1991. On the other hand, strikes and bankruptcies as a result of deteriorating economic conditions and the recession, the loss of liner services to more competitive American ports offering better intermodal links, the rationalization programs adopted by some shipping lines causing a reduction in associated intermodal services, supply and demand conditions in export markets, and more competitively priced rail services, were all mentioned as contributing factors by the one-third of operators who experienced a decline in the number of vessel calls in 1991.

In assessing the impact of various factors on the viability of their operations in 1991, the majority of port terminal operators, as in 1990, felt that transportation legislation, technological changes, trends in intermodal transport and the rationalization of liner shipping services (in 1991 only) had no effect on their operations. While just over half considered that competition from other Canadian and U.S. terminals had no effect, 40 per cent of respondents thought that it had a "negative" to "very negative" impact on their operations in 1991. For the second consecutive year, a bare majority of responding operators considered the costs of operating a terminal to be a negative factor affecting their viability. Other factors mentioned as negatively affecting the viability of port terminals in 1991 were lease negotiations with the CPC, provincial regulations, north/south rail corridors and the decline in forest products exports.

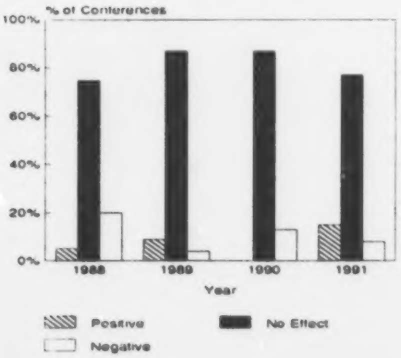
FIGURE 6.13
Effect of *SCEA* on
Port Terminal Operations



As in 1990, several port terminal operators took the opportunity to comment on various aspects of marine transportation. Although many of their comments were directed toward Canadian domestic marine services, operators did make reference to issues directly or indirectly affecting international liner shipping, such as terminal lease costs and the high costs of rail links to Canadian ports. One terminal operator viewed *SCEA* as having had a negative impact as a result of a shortage of containers in his trade. Another reported that over-capacity on the North Atlantic combined with the recession "has not yet led to a significant decrease in the number of ships calling but has created a large drop-off in tonnage carried on those ships", and expressed concern that changes in Canadian legislation prior to legislative changes being made in the U.S. might result in further erosion of liner services on the east coast. Finally, another called for the maintenance of the status quo.

Regarding the upcoming Comprehensive Review, port terminal operators expressed an interest in seeing the Panel give consideration to such questions as, among others, the transshipment of Canadian cargo through U.S. ports, the high costs of rail links to Canadian inland markets, the barriers to Canadian ports competing for traffic as a result of highly-subsidized U.S. ports, the Canadian Coast Guard's cost recovery proposal and Canadian railroads' lack of competitiveness. As well, one terminal operator called for more preliminary consultation on and study of the consequences on port terminal operations of proposed pollution and environmental legislation affecting marine transport.

FIGURE 6.14
Effect of *SCEA* in General
on Conference Operations



Conferences' Perspective

Over 95 per cent of active tariff filing conferences operating in Canadian trade completed the 1991 Survey of Shipping Conferences, the highest response rate in the four years over which the survey has been conducted. Coverage included all major trade lanes to and from Canada.

As in 1990, the majority of conferences reported that *SCEA* in general and changes in the Act such as the introduction of I/A and service contracts, loyalty contract restrictions, notice period for increases in rates and dispute resolution mechanisms had no effect on their operations in 1991.

Just under one-half of reporting conferences used I/A in 1991.

Ten conferences reported the filing of notices of I/A by their member lines in 1991. In response to these initial filings, some I/A rates were adopted by other conference members or became standard conference rates. The majority of conferences stated that I/A activity within their conference had remained unchanged from 1990. Two, however, claimed an increase in I/A activity while four experienced decreased activity. In general, I/A rates were estimated to be six to ten per cent lower than standard conference rates (although in a few cases I/A rates were actually higher), and were employed in the movement of one to ten per cent of the cargo of a majority of conferences. Although I/A was not deemed by most conferences to have had any effect on their operations in particular, in 1991, it did have some negative impact on conference rates and revenue base. I/A was also viewed by some conferences as improving their ability to compete with independents and retain customers. For the most part, conferences maintained that the threat of the use of I/A had little or no impact on conference rate structures, although any effect seen was generally negative. Eight conferences, reiterating what had been stated in previous surveys, expressed the desire to see the notification period to conferences regarding I/A actions by member lines extended from the present 15 to 30 days. Two conferences called for the elimination of the I/A provision entirely.

Three conferences signed service contracts in 1991.

Only three conferences reported being approached about and signing service contracts in 1991, down somewhat from the previous year. These same conferences had also signed service contracts in the previous year. Volumes carried under these contracts represented 11 to 35 per cent of total cargo, and in one instance, over 50 per cent. Conferences commented that service contracts should allow them to negotiate for the carriage of a percentage or a fixed volume of a shipper's cargo. They also called for the mandatory filing of non-conference service contracts with the Agency. Finally, two conferences expressed an interest in seeing this provision eliminated outright.

After decreasing from 1989 to 1990, the use of through rates by conferences increased in 1991. Nine of 13 conferences reported increased volumes of cargo moving on these rates in 1991, while the other four moved volumes similar to those of 1990.

Fifteen conferences, down from numbers seen in 1990, announced rate increases in 1991, which were predominantly GRIs. Seven conferences announced two or more increases during the year. Operating costs, capital costs and market demand conditions continued to be the major factors accounting for the rate increases. On the other hand, seven conferences, down from nine in 1990, indicated that their rates had decreased in 1991.

Nineteen conferences received requests for rate reductions from either shippers or shippers' associations, the majority of which were partially or fully agreed to. Conversely, seven conferences initiated rate reductions in 1991, citing market conditions and non-conference competition as the principal motivations for their decision.

Two conferences met with the Council in 1991.

Two conferences reported meeting with the designated shippers' group (i.e., the CSC) in 1991 to discuss issues such as GRIs, ancillary charges, BAFs and service levels.

Over the four year period between 1988 and 1991, there was little change in conference opinion with respect to the effect of *SCEA* and its provisions, with a large majority maintaining that the Act had no effect on their operations. Where conferences reported an effect, in the case of I/A, service contracts and loyalty contracts, the impact tended to be negative.

While a majority of conferences still do not use I/A, the number has increased since 1988. Conferences have consistently reported throughout the years that I/A had a negative effect on conference rates and revenue base, and more recently, a positive effect on their ability to retain customers.

Service contracts, under *SCEA*, were first employed by conferences serving Canada in 1988, but have never been used by more than 15 per cent of conferences. The majority of conferences felt this provision had little impact on their operations in each of the last four years.

Regarding shippers' requests for rate reductions, conferences fully agreed to reductions about two-thirds of the time in 1988 and 1989, increasing to three-quarters in 1990 and 1991. Conversely, the proportion of shippers' requests refused by conferences dropped from an average of 25 per cent in 1988 and 1989, to less than 15 per cent in 1990 and 1991.

Two-thirds of conferences suggested modifications to SCEA.

When asked to comment on *SCEA*'s future, eight conferences were of the view that *SCEA* should be retained in its present form; however, 15 suggested that the Act needed to be modified. As well as changes in the I/A and service contracts provisions, 11 conferences emphasized that the status of conference/non-conference agreements within *SCEA* needed to be addressed, advocating the allowance under the Act of discussions between conference and independent carriers on rates, services and capacity. Eight conferences called for modifications to *SCEA* regarding the negotiation of rates with inland carriers, stating that negotiations of these rates by conferences as a whole would lead to improved services and reduced operational costs. Some conferences were of the opinion that the application of rules, regulations and tariff filing requirements sanctioned by *SCEA* governing conferences should also apply to non-conference lines and Non Vessel Operating Common Carriers (NVOCCs) serving Canada.

When asked about reporting activities under *SCEA*, two-thirds of conferences polled felt that the Agency should be required to produce a publicly available annual report on its administration of the Act, while one-third of responding conferences were of the view that the designated shippers' group should also be required to produce a similar report on its activities related to *SCEA*.

SCEA Related Initiatives

The Canadian Shippers' Council sponsored Shippers' Focus Group seminars.

Two initiatives directly related to *SCEA* were undertaken in 1991. The first was organized by the Canadian Shippers' Council with some support from federal government departments concerned with the Act. The series of five conferences held in June in various venues across the country consisted of sessions designed to increase the awareness of Canadian shippers and freight forwarders of a variety of issues impacting on the competitiveness of the Canadian transportation system and Canadian ports. The sessions were followed by Focus Group meetings restricted to shippers and forwarders to obtain their views on whether *SCEA* helped or hindered Canadian exports and imports. Major Focus Group conference themes included the nature of ocean liner conferences, the need for continuation of exemptions for conferences under *SCEA* and under what terms, space shortages in shipping trades, rates and services in ocean shipping, and the use of Canadian and American ports. It is anticipated that Focus Group discussions will provide a basis for the development of the CSC's position on *SCEA* to be submitted in 1992 to the Comprehensive Review Panel on transportation legislative reforms.

An Industry Advisory Group studied SCEA.

The second initiative, referred to as the Industry Advisory Group on *SCEA* (IAG) was established in response to a desire by private sector elements to examine the Act. Consisting of a cross-section of shipping interests including conference representatives, marine carriers, shippers, freight forwarders, other modal carriers, and the Canada Ports Corporation, the IAG crossed the country in September and October. In its four public hearings, the IAG Panel heard presentations by interested parties and engaged in discussions with speakers on the subject of *SCEA*. One of the objectives of the IAG, among others, was to determine the extent to which consensus on various issues related to *SCEA* existed and the need to discontinue exemptions from the *Competition Act* currently afforded liner conferences. Other matters on the agenda were the exemption of agreements between conferences and non-conference carriers, service contracts, surcharge formulae, negotiations between conferences and inland carriers, and administrative matters related to *SCEA*. Finally, the Panel also attempted to deal with the issue of the designation of shippers groups, information requirements under section 20, dispute resolution mechanisms and the protection of small shippers. Like the CSC, the IAG will also be submitting its findings and recommendations to the Comprehensive Review Panel and producing a report on its proceedings for public consumption at some point in 1992.

Other Developments

The Canada Ports Corporation released its "Port Competitiveness" report.

The Agency's 1990 Annual Review reported on the Canada Ports Corporation's initiative to examine the competitiveness of Canadian container ports and routings in relation to ports in the U.S. The end of 1991 saw the release of the Container Competitiveness Committee's final report entitled "*Towards a Canadian Intermodal System: Recommendations for Change*". While the conclusions and recommendations of this report are dealt with in more detail in this Review's "Intermodal Services" section, the report contains two innocuous references to *SCEA*. According to the Committee, "...ocean carriers found no substantive issue with the revised *SCEA*. They indicated that *SCEA* has had no impact on shipping or conferences' business...". Further, the Committee stated that "In Canada, the use of service contracts has to date been negligible and the impact of *SCEA* benign". However, the Committee did offer the opinion that, in order for the Canadian port system to survive and thrive, the legislative environment (which includes *SCEA*) in Canada must continue to be conducive to major shipping lines and consortia to give them less reason to abandon Canadian ports in favour of serving the Canadian market through U.S. ports.

Work continued on the review of the U.S. Shipping Act of 1984.

Of considerable pertinence to discussions of *SCEA* in Canada was the work of the President's Advisory Commission on Conferences in Ocean Shipping, the second stage in the review of the *U.S. Shipping Act of 1984*, which proceeded vigorously in the U.S. throughout 1991. The seventeen-member Commission, representing a cross-section of American shipping interests, held five public hearings on the U.S. east, west and Gulf coasts in 1991, gathering inputs from across the country in an effort to determine the role, if any, of shipping conferences and whether U.S. national interests would be best served by "open" or "closed" conferences. The Commission, whose deliberations could have a profound effect on the future of conferences in the U.S. liner trades, will report to Congress in April, 1992. As liner services and government policies associated with these services in both Canada and the U.S. are inextricably linked, any changes, however small, to the *U.S. Shipping*

Act of 1984 as a result of the Commission's recommendations, will have implications for the 1992 review of *SCEA* here in Canada.

Impact of *SCEA*

Changes in liner shipping in Canada is a function of market forces, not SCEA.

All affected parties were again unanimous in their assessment of the impact of *SCEA* in 1991. Although many still professed little or no knowledge of the Act, large majorities of Canadian shippers, international freight forwarders and port terminal operators familiar with *SCEA* reported, for the fourth consecutive year, that it had no effect on their respective businesses and operations. Similarly, views of *SCEA*'s impact articulated by shipping conferences serving Canada, who understandably demonstrated more familiarity with the Act, have consistently mirrored those of the other groups in each of the past four years. 1991 Agency survey results once again confirmed what had been evident over the previous three years, that traffic levels, levels of service, ocean freight rates and structural changes associated with the liner shipping industry serving Canada are driven by market forces, whose main players reside beyond Canadian borders, rather than by legislation governing the operations of shipping conferences serving Canada.

Again, shippers deplored the lack of use of service contracts and I/A.

Shippers and forwarders continued to harp on the limited use of both ocean service contracts and I/A -- two of *SCEA*'s key provisions -- in Canadian conference trade, despite the fact that the latter has been used quite extensively between 1988 and 1991 on Canada's highest volume trade route, the Transpacific. Moreover, the nature of I/As and service contracts may have spawned a reciprocal relationship between the two which has had the effect of severely limiting the number and use of service contracts in Canadian liner trade. In addition, the inclusion of these provisions in *SCEA* could not guarantee widespread application in a Canadian context as their use continues to be, first and foremost, subject to the dictates of a constantly changing marketplace.

Some shippers called for modifications to SCEA; others demanded its elimination.

Calls for the outright elimination of *SCEA* continued in 1991, as a result of shipper expectations that the Act, with its narrow scope, could not meet. Some shippers argued that jettisoning the Act would spell the demise of conferences, forcing all liner operators to negotiate on an individual basis with shippers and allowing market forces to truly prevail in the setting of ocean freight rates. Proponents of elimination gave no credence to the conference threat that the disappearance of the Act would simply force conferences to shift their operations south of the border, servicing the Canadian market through U.S. ports, to the detriment of many Canadian shippers and the Canadian ports system. Other interests, including conferences, took a different position regarding the Act, calling instead for its modification. In this regard, a number of *SCEA* related issues (see box below) have been identified as part of the CSC Focus and IAG Group initiatives, as well as in a study by Sletmo and Holste on "*The Canadian Shipping Conferences Exemption Act: Issues and Roles for Shippers and Shipping Conferences*" undertaken for External Affairs in 1991. However, consensus on modifications may not be an easy task, as changes advocated by shippers are, for the most part, contrary to those proposed by conferences. Despite conference views that *SCEA* has had no effect on their operations over the past four years, the mere existence of the Act continues to legitimize conference operations in Canada.

International liner shipping continues to be driven by rapidly changing market forces. The most that can be expected from an Act such as *SCEA*, if retained, is that it continue to complement and not inpede those forces as they strive to provide Canadian shippers with transportation alternatives that maximize economy and efficiency.

SCEA Related Issues Drawn to the Attention of the Agency Over the Past Four Years

CONTINUING NEED FOR *SCEA*

Does *SCEA* continue to serve a useful purpose within the framework of Canadian liner shipping policy?

INTERPRETATION OF *SCEA*

- **Definition of a Conference**
  Is an association of carriers a conference if it does not have the effect of regulating rates and conditions of service?

- **Requirements for Exemption**
  Does an agreement qualify for an exemption under *SCEA* if the association of carriers filing the agreement does not meet *SCEA*'s definition of a conference?

- **Clarification of the Role and Powers of the Agency**
  Does the Agency, as administrator of *SCEA*, have the power to accept or reject agreements for filing and to grant or deny exemptions under *SCEA*, or does this function fall within the exclusive purview of Consumer and Corporate Affairs' Bureau of Competition Policy?

STATUS OF DISCUSSION/BRIDGING/STABILIZATION AGREEMENTS

Are these types of agreements, relatively new to Canadian liner trade, eligible for exemption under *SCEA*, despite the 1987 revision to the Act which implicitly exposes agreements between conference and non-conference lines to the *Competition Act*?

EXCLUSIVE USE OF OPEN RATES BY CONFERENCES

What are the requirements under *SCEA* for the use of open rates, and should previously exempted conferences, which have now moved to the exclusive use of these rates, continue to enjoy an exemption under *SCEA*?

EFFECTIVENESS OF COMPLAINT MECHANISMS

Is there a need for a more efficient and economic shipper-conference arbitration mechanism than presently exists in *SCEA* and the *NTA, 1987*?

CLARIFICATION OF THE DEFINITION OF "...INFORMATION SUFFICIENT FOR THE SATISFACTORY CONDUCT OF THE MEETING..." BETWEEN OUTBOUND CONFERENCES SERVING CANADA AND THE DESIGNATED SHIPPERS' GROUP

NEED FOR THE JUSTIFICATION FOR AND THE REGULATION OF CONFERENCE TARIFF AND SURCHARGE INCREASES

CHANGE TO THE NOTIFICATION PERIOD REQUIRED BY CONFERENCES FOR I/A TAKEN BY THEIR MEMBER LINES

CONSIDERATION OF THE NEGOTIATION OF INLAND RATES WITH SURFACE CARRIERS BY CONFERENCES AS A WHOLE

TIMING AND CONGRUITY OF AMENDMENTS, IF ANY, TO *SCEA* AND THE *U.S. SHIPPING ACT OF 1984*

CONSIDERATION OF ADDITIONAL REQUIREMENTS IN *SCEA* OR ITS "REGULATIONS" FOR ANNUAL REPORTS ON *SCEA* FROM THE AGENCY AND THE DESIGNATED SHIPPERS' GROUP

MARINE SERVICES

Northern Marine Resupply

Highlights of 1991

Inactivity in Resource Sector Impacts Adversely on Resupply Carriers

With virtually no oil and gas exploration or development in the Canadian Beaufort in 1991, the continued viability of Mackenzie system carriers, especially the smaller ones who traditionally rely on revenues generated from the carriage of resource sector cargoes, was threatened.

Agency Denies Application for Marine Resupply Licence; Applicant Requests Review of Agency Decision

Concluding that an additional licensee in the Athabasca system would lead to carrying capacity in excess of demand, the Agency denied Lake Athabasca Transport's application for a marine resupply licence. The applicant subsequently petitioned for a review of the decision. By year end, the Agency had not ruled on this request.

Athabasca System Rife with Carrier Complaints Including Unhappiness with Agency's Handling of Marine Resupply Matters

Animosity between the two licensed carriers and Lake Athabasca Transport continued to escalate in 1991, culminating in a bevy of operational and licensing complaints to the Agency and the Canadian Coast Guard. Carriers also voiced their discontent with the Agency's delays in processing complaints, lack of expeditious handling of licensing matters and the excessive paperwork required on the part of carriers to resolve licensing problems.

Northern Marine Resupply

- In matters related to northern marine resupply, the Agency views the north as two distinct systems:

  Mackenzie River and Western Arctic

  Referred to as the Mackenzie system, it encompasses those communities resupplied by water within the watershed of the Mackenzie River as well as communities located in the western Arctic from the Alaska-Yukon border in the west to Spence Bay in the east.

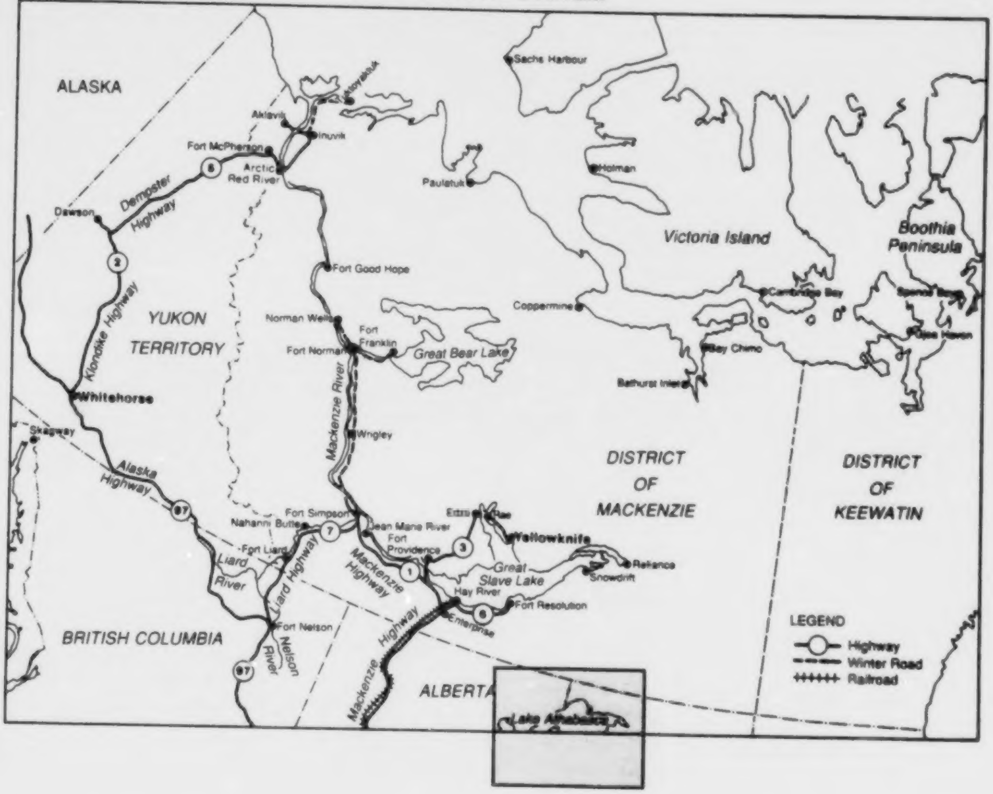
  Lake Athabasca

  Referred to as the Athabasca system, it includes those northern Alberta and Saskatchewan communities located on or near the shores of the lake.

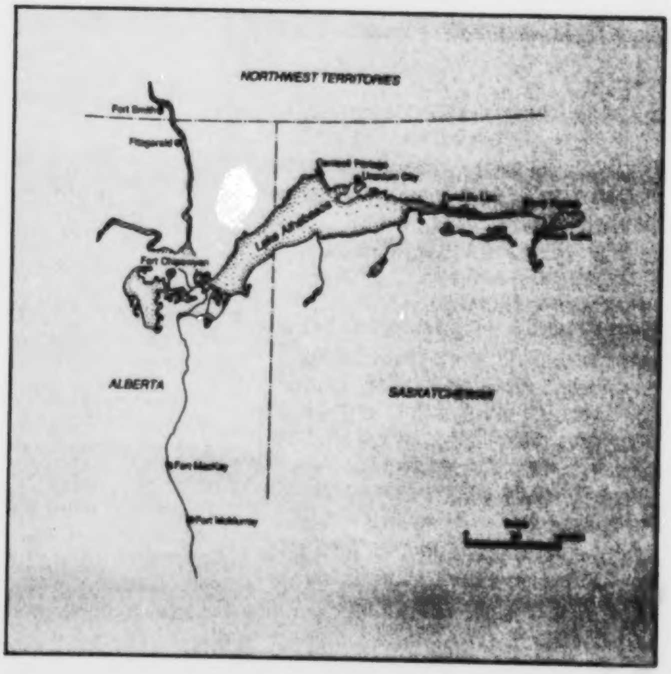
- Part V (Marine Resupply Services) of the *NTA, 1987* does not apply to the marine resupply services provided to communities on Hudson Bay by NTCL out of Churchill (i.e. Keewatin service) or to the annual resupply, by water, of communities in the eastern Arctic (i.e. eastern Arctic Sealift) from Montréal.

Licensed Carrier	Licensed Tonnage	Type of Service	Scope of Operations
Mackenzie System			
Northern Transportation Company Ltd.	72,246	Scheduled/ Charter	Entire System
Cooper Barging Service Ltd.	933	Unscheduled/ Charter	Liard and Mackenzie Rivers
Coastal Marine Ltd.	234	Charter	Mackenzie River Delta
Beluga Transportation Ltd.	215	Charter	Mackenzie River Delta
Athabasca System			
A. Frame Contracting Ltd.	2,655	Unscheduled/ Charter	Entire System
MacDonald Marine Transport Ltd.	240	Unscheduled/ Charter	Entire System

FIGURE 6.15
THE MACKENZIE RIVER AND WESTERN ARCTIC SYSTEM


ALASKA
Sachs Harbour
Tuktoyaktuk
Aklavik
Inuvik
Fort McPherson
Arctic Red River
Dawson
Dempster Highway
Paulatuk
Holman
Victoria Island
Boothia Peninsula
Fort Good Hope
Cambridge Bay
Spence Bay
Coppermine
YUKON TERRITORY
Klondike Highway
Norman Wells
Fort Franklin
Fort Norman
Great Bear Lake
Bay Chimo
Gjoa Haven
Bathurst Inlet
Whitehorse
Skagway
Mackenzie River
Wrigley
DISTRICT OF MACKENZIE
DISTRICT OF KEEWATIN
Alaska Highway
Fort Simpson
Nahanni Butte
Jean Marie River
Edzo
Rae
Yellowknife
Fort Liard
Fort Providence
Liard River
Mackenzie Highway
Great Slave Lake
Reliance
Snowdrift
Hay River
Fort Resolution
Enterprise
Liard Highway
Fort Nelson
BRITISH COLUMBIA
Nelson River
ALBERTA
Lake Athabasca
LEGEND
Highway
Winter Road
Railroad

LAKE ATHABASCA SYSTEM


NORTHWEST TERRITORIES
Fort Smith
Fitzgerald
Uranium City
Lake Athabasca
Fort Chipewyan
ALBERTA
SASKATCHEWAN
Fort MacKay
Fort McMurray

Mackenzie System

Industry Structure

The 1991 shipping season mirrored 1990 in terms of the number of licensed carriers providing marine resupply services in the Mackenzie system. Northern Transportation Co. Ltd. (NTCL) continued to be the major carrier in the system while Cooper Barging Service Ltd. (Cooper), Coastal Marine Ltd. (Coastal) and Beluga Transportation Ltd. (Beluga) again provided services complementary to those of NTCL on a much smaller scale.

The 1991 shipping season also saw the provision of unlicensed services between Inuvik and Aklavik in the Mackenzie Delta by David Storr & Sons and Cardinal Transport, and the continuation of the charter services of East Arm Freighting out of Yellowknife to communities on Great Slave Lake.

The transfer of its remaining vessels from the Beaufort to the Canadian east coast at the end of the 1991 shipping season, left Arctic Transportation Ltd. (ATL), which had been exclusively providing support for resource sector initiatives, without a presence in the region for the first time since the start up of its operations in 1969.

Number of licensed resupply carriers has remained constant since 1988.

Since 1988 the number of carriers licensed to provide marine resupply services in the Mackenzie has remained relatively stable. However, over the period, the system has seen the gradual disappearance of ATL, which, prior to the enactment of the *NTA, 1987*, had provided a modicum of competition for NTCL in the marine resupply of communities in the Mackenzie system.

Areas of Operation and Level of Service

No change in communities served, type of services and carrying capacity in 1991.

The number of communities served, the types of services provided by licensed carriers, and the total licensed carrying capacity available in the system did not change from 1990 to 1991.

NTCL, using the same equipment for the past four years, once again provided scheduled services to 25 communities on the Mackenzie River, Great Slave Lake and in the western Arctic. With the inactivity in the Canadian Beaufort, the carrier continued to promote its services to Alaska and managed to move some cargo to Barrow on an unscheduled basis. Hay River and Norman Wells (bulk fuel only) remained the main staging points for NTCL cargo. Inuvik and Tuktoyaktuk remained major transshipment points and continued to receive, along with Norman Wells, regular and frequent barge services in 1991.

NTCL encountered difficulty in resupplying some communities in the western Arctic due to unusually severe ice conditions which persisted throughout the 1991 shipping season. With the aid of Canadian Coast Guard ice-breakers, as well as a chartered vessel from Beaudril, NTCL managed to deliver all cargo destined for the eastern section of the western Arctic before the end of the shipping season. Excluding main staging and transshipment points, NTCL made 56 calls to northern communities in 1991, up slightly from 54 made in the previous year. The carrier made 19 calls to Mackenzie River settlements, 19 to the western Arctic, 13 to points on Great Slave Lake and five to communities in the Mackenzie Delta.

Cooper continued to provide unscheduled and charter services to a limited number of communities along the Mackenzie and Liard Rivers in 1991. The carrier made 15 calls in all in 1991, down from 21 in 1990. Communities receiving calls included Wrigley (6), Norman Wells (4), Fort Norman (3), Jean Marie River (1), and Nahanni Butte (1). Charter work undertaken by Cooper tended to dominate its operations in 1991.

Coastal, operating an integrated service with Points North trucking, continued to average one trip per week between Inuvik and Tuktoyaktuk in 1991, down by one from the 13 trips made in the previous year. As a result of inactivity in the Beaufort, the carrier undertook very little charter work in 1991.

Beluga continued to suffer from the malaise in the oil patch, managing only one run between Inuvik and Tuktoyaktuk on a charter basis for an oil company operating in the Beaufort.

Only minor demand driven changes in service levels over the past four years.

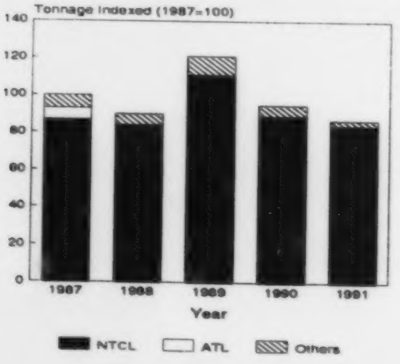
Since the enactment of Part V in 1988, there has been little change in the areas and communities serviced by the region's licensed marine carriers, nor has there been any change in the licensed carrying capacity in the system. On the other hand, changes in the level of service provided by these carriers, although not significant, have occurred primarily due to the fluctuating nature of resource sector and national defence activities over the 1988-1991 period. While NTCL's size and very large market share have allowed it to better cope in maintaining a regular resupply service, the fluctuating demand for barge transportation in the north has been the major cause of slightly lower levels of service provided by the smaller carriers in the system in recent years.

Traffic

Total traffic down slightly in system.

Total freight moved by all licensed carriers in the Mackenzie system is estimated to have declined again in 1991 to about 153,000 short tons (see Figure 6.16). The overall decrease of approximately nine per cent was reflected in drops in the tonnage handled by all licensed carriers in 1991, although NTCL's declined by the greatest absolute amount.

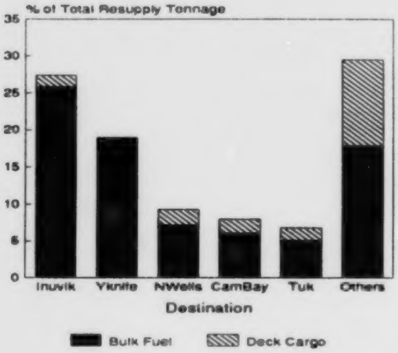
FIGURE 6.16
Changes in Tonnage Carried
in the Mackenzie System 1987-1991



Resupply's proportion of total freight carryings in the system increased substantially from 72 per cent in 1990 to 86 per cent in 1991. This is attributed to an increase of eight per cent in resupply freight and an estimated 54 per cent drop in resource sector/national defence cargoes carried by all operators in the system. NTCL once again dominated resupply in the Mackenzie, handling 96 per cent of the total resupply tonnage moved. Resupply cargoes represented an estimated 88 per cent of NTCL's total tonnage in 1991, compared to only 72 per cent in 1990. Coastal and Cooper, whose resupply tonnages increased and decreased respectively in 1991, accounted for the residual resupply carried in the system.

As in past years, bulk fuel shipments accounted for the vast majority of resupply tonnage (81 per cent) handled by NTCL in 1991. New tankage in Spence Bay, combined with increased demand in Mackenzie Delta and River communities, led to an increase of 15 per cent in NTCL bulk fuel movements in 1991. Deck cargo handled by NTCL also showed an increase of 13 per cent over the previous shipping season due primarily to an increase in construction projects for northern communities in 1991. Figure 6.17 highlights major destinations for NTCL resupply cargo in 1991.

FIGURE 6.17
Major Destinations
for NTCL Resupply Cargo in 1991



It is estimated that continued inactivity in the resource sector had a considerable negative impact on NTCL's carryings in 1991. However, the system's principal carrier still continued to handle almost all national defence cargo destined for North Warning System sites in the western Arctic. The completion of these sites is expected to lead to a reduction in this type of freight beginning in 1992. NTCL continued to promote its Alaska service via the Mackenzie River although it made only one trip in 1991 moving oil field equipment to Barrow.

Virtual inactivity in the resource sector had a devastating effect on all three of the system's smaller licensed carriers. Cooper saw a substantial drop in its resource sector tonnage to the extent that it wondered whether there would be sufficient tonnage in the coming season to warrant continuing operations on the Mackenzie River. Coastal, a carrier that traditionally relies on the oil patch for charter work, was forced to rely almost exclusively on its affiliation with Points North trucking by providing the marine link in the through movement of predominantly resupply goods from Edmonton to Tuktoyaktuk. Beluga managed to land only one small contract in the resource sector in 1991 as its equipment again sat idle for much of the shipping season.

With the exception of 1989, when freight moved by northern marine carriers increased due to renewed activity in the resource sector and the upgrading of Canada's North Warning System, total tonnages in the Mackenzie system have declined slightly. Resupply cargo has been the mainstay of the system, accounting for the vast majority of freight moved over the past four years, and picking up in those years when resource sector activity waned.

NTCL's market share increased slightly since 1988.

The past four years have also seen NTCL, the system's principal carrier, increase its already considerable market share of total tonnage slightly from 1988 to 1991. Its share of resupply tonnage moved remained at approximately 97 per cent from 1988 through 1991.

Tariffs

NTCL increased rates by five per cent.

Mackenzie shippers and consignees were subjected to a rate increase averaging five per cent on resupply goods moved by NTCL in 1991. In comparison, the Yellowknife Consumer Price Index (CPI) rose by 6.5 per cent in the same year. In addition to the rate increase filed with the Agency in March 1991, NTCL informed the Agency that it reserved the right to implement a fuel surcharge should fuel prices escalate during the 1991 shipping season. This charge was never implemented as fuel prices stabilized with the cessation of hostilities in the Middle East. None of the other three licensed resupply carriers filed rate increases with the Agency in 1991.

In each of the past four years NTCL has increased its freight rates on resupply cargo by between three and five per cent. With the exception of 1988, these rates have been slightly below the relative increase in the cost of living in the Northwest Territories as measured by the Yellowknife CPI.

In contrast, none of the other licensed carriers in the Mackenzie system have reported increasing their marine resupply tariffs, most likely reflecting their reliance more on revenues generated from the carriage of resource sector cargo, which remains unregulated, than revenues earned from the carriage of resupply cargo.

Carrier Performance

NTCL's revenue base was enhanced in 1991 by a 13 per cent increase in resupply tonnage carried, coupled with the five per cent rate increase levied on this cargo. However, the rise in resupply tonnage could not make up for the decline in the carrier's revenues generated from the carriage of resource sector freight.

Carriers' revenues declined again in 1991.

Cooper's earnings from barging were also down from the previous year as tonnages dwindled in the resource sector in 1991. Coastal generated revenues by its continued provision of the marine portion of the through service from Edmonton to Tuktoyaktuk and on to the Canadian and Alaskan Beaufort. However, its bottom line also deteriorated due to a lack of work in the resource sector. Beluga's financial position was adversely affected again in 1991 as it moved only minimal tonnage for a resource sector client.

NTCL's large share of available resupply, national defence and resource sector freight in the system has ensured it a relatively stable revenue base from 1988 through 1991.

The other three licensed carriers' financial health varied in direct relation to the level of activity in the resource sector because they are so dependent upon it. However, their formal ties to other transportation companies and related businesses have enabled them to continue to provide barging services in the Mackenzie system despite their loss of revenue attributed to the virtual inactivity in the resource sector in recent years.

Users' Perspective

For the fourth consecutive year, the Agency surveyed users of licensed marine carriers in the Mackenzie system regarding their views on the quality and level of service provided. The number of Mackenzie shippers participating in the survey increased slightly from 1990 to 1991.

1991 Survey of Mackenzie Users of Marine Resupply Services - Profile of Respondents -

- Respondents included a cross-section of shipping interests including private businesses (majority of respondents), northern communities, Arctic co-operatives, native bands, federal, provincial and territorial governments.
- Respondents represented all sizes of shippers.
- 79 percent of those responding were regular users of resupply services.
- Three-quarters of all respondents moved community resupply cargoes, or both resupply and resource sector cargoes.
- A large majority of respondents reported that tonnages moved by barge either stayed the same or increased from 1990 to 1991.

Level of Service

The majority of responding Mackenzie shippers rated marine services received in 1991 "about the same" as those received in 1990, a result not much different from that seen in the 1990 survey. The proportions of respondents reporting a change in services from the previous year remained relatively constant from 1990 to 1991 with more shippers rating them "worse" than "better".

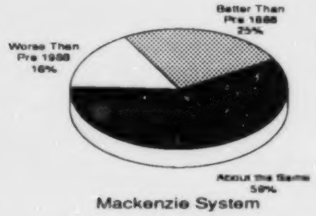
Mackenzie carriers received "acceptable" to "very good" ratings from shippers more often in 1991 than in 1990 for their on-time performance and frequency of service (see Table 6.2). On the other hand, a smaller proportion of shippers than in 1990 rated carriers "acceptable" to "very good" on their scheduling, flexibility and rates. Shipper ratings of carriers' payment of claims did not change over the two years.

Price/Rate, mentioned by 38 per cent of shippers, overtook on-time performance in 1991 as the level of service criterion considered most important by Mackenzie shippers. On-time performance was a close second while frequency was a distant third.

TABLE 6.2
Mackenzie Shippers' Assessment of Marine Resupply Services

	Very Good/Good %		Acceptable %		Poor/Very Poor %	
Criteria	**1990**	**1991**	**1990**	**1991**	**1990**	**1991**
Price/Rate	32	25	62	64	6	11
On-time Performance	31	33	41	43	28	24
Frequency	41	38	48	54	11	8
Flexibility	40	36	33	36	27	28
Schedule	29	30	59	53	12	17
Payment of Claims	38	46	51	43	11	10

FIGURE 6.18
Shippers' Ratings of Marine Resupply Services in 1991 Compared to Pre 1988



In a question added to the 1991 survey, Mackenzie shippers were asked to rate the level of marine services they received in 1991 compared to services prior to 1988. Of those who responded, 59 per cent were of the view that 1991 services were "about the same" as those prior to the enactment of Part V in 1988. One quarter reported services "better" in 1991 while 16 per cent described them as "worse".

In shippers' ratings of their principal carrier on its frequency of service, on-time performance and rates in the period 1988 through 1991, carriers received "acceptable" to "very good" ratings from a large majority of respondents on all three service criteria.

The results of Agency surveys would appear to indicate that shippers were generally satisfied with the marine resupply services provided in the Mackenzie system over the past four years.

Freight Rates

Freight rates were higher but reasonable in 1991.

Of those respondents shipping general or containerized freight in 1991, the majority perceived freight rates to have increased over those of 1990; nevertheless, two-thirds of these shippers still found these rates to be reasonable. A majority of Mackenzie shippers who moved bulk fuel in 1991 also thought rates for this product had increased; yet, almost 80 per cent of them still described 1991 rates as reasonable. These results parallel those seen in the 1990 survey.

Competition

Mackenzie shippers were still captive to one carrier...

Survey results revealed that in 1991, 63 per cent of Mackenzie shippers viewed themselves as captive to one carrier, up slightly from the 59 per cent who held this view in 1990. In both years, only a slim majority (51 per cent) of those describing themselves as captive supported increased competition in marine transportation in the system. Almost equal numbers of Mackenzie shippers looked upon increased competition in the system favourably as did unfavourably. Insufficient tonnage was cited as the major reason for taking a stand against more competition, while others feared that it would lead to the erosion of carrier profit levels or even financial losses resulting in lower levels of service in terms of scheduling and availability of equipment. Still other shippers expressed the view that no further competition was necessary as existing services were satisfactory.

Those who favoured increased competition claimed benefits such as lower rates or, at least, the maintenance of rates at reasonable levels. Improved levels of service in the form of increased frequency, flexibility and on-time performance, the availability of a choice of carriers, and control of a monopoly, were also cited by Mackenzie shippers as reasons for increased competition.

...but were split on the need for increased competition.

The near equal number of shippers holding opposing views on the subject and the reasons cited have not significantly changed from 1990 to 1991. Even though shippers were evenly split on the issue of increased competition, 89 per cent compared to 83 per cent in 1990, reported using only one principal carrier (i.e., NTCL) in 1991.

Use of Other Modes of Transport

Majority of shippers used the air mode and winter roads as well as barge.

Many Mackenzie shippers reported using modes of transport other than barge to move their freight into and out of the north in 1991 -- 87 per cent moved cargo by air, 62 per cent employed winter roads and 31 per cent utilized all-weather roads where available. However, 80 per cent of those shippers using air still flew in less tonnage than they moved by water, most probably because of rates, which 90 per cent reported as being "greater" to "much greater" than those of barge. In contrast, even though one majority of shippers using all weather and winter roads reported rates for these modes to be "about the same" to "much less" than those for barge, most of these shippers still moved much less freight via these modes than by barge, most likely reflecting a bias in the mix of freight destined to the north toward bulk commodities favouring barge transportation.

Majorities of shippers reported tonnages moved by all modes to the north stayed the same or decreased in 1991, most probably due to the inactivity in the resource sector.

General Comments

One-third of responding Mackenzie shippers took the opportunity to provide the Agency with written comments on the provision of marine resupply services. Almost all written comments received that were relevant to marine resupply services focussed on problems Mackenzie shippers had encountered or improvements in services they would like to see in future years. Most frequently mentioned was the need for increased competition in the system to lower rates and improved service in terms of additional frequency and less delays. A few shippers also stressed the need for better carrier communications with customers, including improvement in following-up on lost, damaged or delayed freight.

Mackenzie Shippers' Concerns as Reported in the Agency's 1991 Survey

Among concerns related to northern marine resupply that shippers would like to see addressed in the context of future legislative amendments are:

- Need for more competition
- Monitoring of marine resupply as well as resource sector freight rates
- Consultation with major users re proposed increases in marine freight rates
- Subsidies for bulk fuel freight rates in the north to lower shipping costs
- Elimination of GST on transportation services in the north

One-third of all written comments received concerned the operations of NTCL, the system's principal carrier. In the few positive comments received, major shippers indicated that they were pleased with NTCL's services, that the carrier gave "good service with a positive attitude" and its management was "sensitive to the needs of shippers". On the other hand, a number of small and medium-sized shippers were less than complimentary to the carrier. One complained that NTCL provided inadequate and unsatisfactory service in 1991; materials to be moved northbound were sometimes delayed as a result of "foul ups in Hay River", with NTCL frequently denying responsibility for damage to freight. Another called for the "disclosure of NTCL financial information to assure the integrity of the firm". Still another shipper claimed NTCL was "making money" and therefore should not increase rates "drastically". A few respondents also seriously questioned NTCL's policy of charging shippers "$1,820 per day for delays due to inclement weather". Finally, more than one shipper, and the small carriers as well, expressed frustration with the G.N.W.T. policy on tendered contracts stipulating the use of only one carrier (i.e., NTCL) to transport materials.

Comparison of Survey Results From 1988 Through 1991

No change in levels of service from 1988 through 1991.

A comparison of results of 1988 through 1991 surveys of Mackenzie users of marine resupply services revealed that a large majority of shippers saw no difference in services received from one year to the next and that these results were consistent in each of the four survey years. As well, large majorities of shippers rated Mackenzie carriers "acceptable" to "very good" from 1988 through 1991 on level of service factors including price/rate, frequency, on-time performance, schedule, claims payment and flexibility, although the proportion of shippers rating them "acceptable" to "very good" varied by factor and from year to year.

In the four survey years, shippers identified price/rate as the service factor of most importance on two occasions (1988 and again in 1991) while they rated on-time performance most important in 1989 and 1990.

The proportion of Mackenzie shippers reporting higher general and bulk fuel freight rates gradually increased from 41 per cent in 1988 to 66 per cent in 1991; however, large majorities of shippers described these rates as reasonable in each of the four survey years.

Despite reliance on one carrier, the majority of shippers did not favour increased competition.

When responding to the question on captivity to one carrier, 75 per cent of shippers were of the view that they were limited to the services of only one carrier in 1989; this proportion dropped to 59 per cent in 1990 but increased again to 63 per cent in 1991. Despite these responses, a majority of Mackenzie shippers replied in the negative in each of the years from 1988 through 1991 when asked if they would like to see increased competition in marine transport in the system.

In general, Mackenzie shippers appeared to be satisfied with the barging services they received over the four-year survey period although they did raise, in each of the years, a number of concerns in written comments submitted to the Agency.

Athabasca System

Industry Structure

Two licensed carriers provided services in 1991.

Athabasca shippers received regular northern marine resupply services throughout the 1991 season from two licensed carriers and one unlicensed operator. Despite impressive gains in tonnage carried made in 1991 by MacDonald Marine Transport Ltd. (MMTL), previously operating as Lake Athabasca Transport Ltd., A. Frame Contracting Ltd. (Frame) managed to retain its pre-eminent position as the largest resupply carrier in the Athabasca system.

Agency denied a resupply licence; the applicant requested a review of the decision.

Lake Athabasca Transport (LAT), which had provided a licensed resupply service in 1989, began operations in the 1991 season while waiting for the Agency to review its application for an indefinite licence. After careful deliberation, the Agency denied LAT's licence application, concluding that a third licensed carrier in the system would result in carrying capacity considerably in excess of demand. Moreover, the Agency was not convinced that a third licensee would not increase instability in marine resupply services being delivered in the system. However, LAT continued to operate throughout the 1991 shipping season while the Agency reviewed its decision at LAT's request. At year end, the Agency had still not ruled on LAT's appeal.

While northern marine resupply services in the Athabasca system over the past four years have been mercurial, to say the least, shippers have nevertheless enjoyed the services of at least two licensed carriers from 1988 through 1991. The system has also seen a licensed carrier suspend operations (Cree Band Marine), a resupply licence transferred from one carrier to another (Cree Band Marine to MMTL), a resupply licence issued for one year (LAT) and carriers occasionally operating illegally. The only constant in the system since 1988 has been the services of Frame, although in recent years it has threatened to curtail operations due to declining tonnages and shrinking revenues.

Areas of Operation and Level of Service

Frame made six trips northbound from Fort McMurray in 1991, one more than in the previous year. Destinations included Fond du Lac (5 calls), Stony Rapids (5 calls), Fort Chipewyan (4 calls) and Uranium City (4 calls). The carrier temporarily left the Athabasca system in early July to return four barges to NTCL at Hay River and position another one of its vessels, the "Aurora Explorer" on the Canadian west coast, pending its sale. This equipment was no longer required by Frame for its operations in the Athabasca. The carrier returned to the system in late August. Frame was left with seven barges, one tug and a powered barge (the "Bradley", which was still not operational in 1991) with which to provide resupply services. The carrier made one final unscheduled trip to Fond du Lac and Stony Rapids when freight originally consigned to MMTL was stranded as a result of the grounding of the latter's self-propelled barge in late October.

Level of service of licensed carriers increased slightly.

From Fort McKay, MMTL made a total of 16 northbound trips in 1991, three more than in 1990, which included 15 calls at Fort Chipewyan and three each at Fond du Lac and Stony Rapids. Low water levels late in the season and freight tonnage that strained its maximum carrying capacity throughout the season affected the operation of its barge, with the result that MMTL was unable to make its final trip to the east end of Lake Athabasca, leaving Frame to deliver this cargo.

Although unlicensed, LAT provided a service complementary to those of Frame and MMTL between Fort Chipewyan and Fort McKay, making eight trips in 1991. The carrier also managed two trips to Little Rapids and one round trip to Moose Island.

Since 1988, when only Frame provided a regular resupply service to major communities in the Athabasca system, the level of service, particularly to Fort Chipewyan, Fond du Lac and Stony Rapids/Black Lake has increased with the arrival of LAT (serving only Fort Chipewyan) in 1989 and the more recent start-up of MMTL's operations in 1990. In addition, smaller points in the system such as Uranium City, Charlotte Landing (added to Frame's licence in 1991), Moose Island Landing and Little Rapids have also been linked to the south by barge, when demand warranted.

Traffic

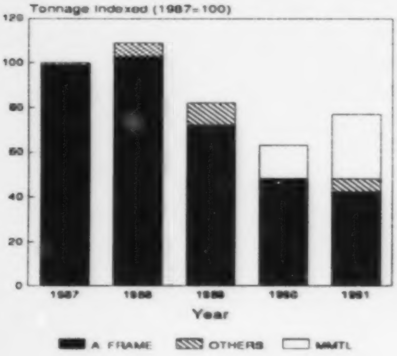
Total freight carried in the system increased.

Frame's tonnage dropped; MMTL's doubled.

Total traffic in the system rebounded in 1991 increasing by 23 per cent from an estimated 8,500 short tons in 1990 to some 10,500 short tons in 1991 (see Figure 6.19). This was attributed to a marginal increase in construction projects in Fort Chipewyan and, to a lesser extent, in communities at the east end of the lake. Despite the overall increase, Frame lost more ground in its head-to-head competition with MMTL, as the former's carryings fell by 13 per cent, while it is estimated that the latter enjoyed a doubling of its 1990 tonnage.

Frame saw both deck freight and bulk fuel tonnages drop by 24 and five per cent respectively from 1990 to 1991. A 33 per cent increase in northbound freight destined to the east end of Lake Athabasca (Fond du Lac and Stony Rapids/Black Lake) could not make up for the 57 and 14 per cent diminutions in tonnages moved by the carrier to Fort Chipewyan and Uranium City respectively. At the very end of the 1991 shipping season, Frame delivered 200 tons of freight (stranded on MMTL's barge that had run aground in the Athabasca River) to Fond du Lac and Stony Rapids.

FIGURE 6.19
Changes in Tonnage Carried
in Lake Athabasca System 1987 - 1991



In contrast to Frame's 1991 operations, MMTL had a banner year with deck freight doubling and bulk fuel shipments increasing by 83 per cent over the previous year as the carrier loaded to maximum capacity on almost all its northbound trips. MMTL freight to Fort Chipewyan is estimated to have doubled in 1991 while cargoes carried to Fond du Lac and Stony Rapids increased by 56 per cent.

At what can best be described as a service complementary to that offered by the two licensed carriers, an unlicensed LAT operated during the entire 1991 season, hauling approximately eight per cent of the total freight moved in the system. While the vast majority of its shipments moved between Fort Chipewyan and Fort McKay, the operator carried minimal tonnages to Moose Island and to Little Rapids.

Although not a significant proportion of their total handlings, all three operators carried some backhaul freight southbound in 1991.

The lack of major capital projects in Athabasca communities and the completion of the Saskatchewan Power hydro line in 1988 accounted for the decline in barged freight in 1989 and 1990. Despite the increase in 1991, it is unlikely that traffic will return to 1988 levels, given the continuing competition barging faces from winter roads in Alberta and Saskatchewan, and, to a lesser extent, from the air mode.

The last two years have also seen Frame's position as the dominant carrier in the system seriously challenged by the substantial gains made by MMTL.

Tariffs

Both Frame and MMTL increased rates.

Both licensed carriers in the system filed tariff increases with the Agency in 1991. Frame filed a new condensed tariff with the Agency at the beginning of the 1991 season replacing the more voluminous one in effect in 1990. The carrier filed increases in deck cargo and bulk fuel freight rates, terminal and handling charges to Fond du Lac, Stony Rapids and Uranium City all averaging approximately six per cent, identical to the increases filed in 1990. The carrier also initially increased bulk fuel rates to Fort Chipewyan by some six per cent but later reduced them by 59 per cent at the beginning of the season. Fort Chipewyan residents received a break in 1991 when Frame filed reduced rates from 1990 levels on most deck cargo (equipment, vehicles and building supplies) and trailers, by 53 and 28 per cent respectively, in an attempt to compete with MMTL.

Athabasca shippers were subjected to rate increases of a greater magnitude from MMTL. Although the carrier chose not to increase bulk fuel rates in 1991, it increased its minimum volume rates to all points by 55 to 100 per cent, its rates on the carriage of vehicles and heavy equipment to Fort Chipewyan by 20 to 50 per cent and to Fond du Lac by three to 11 per cent, and on trailers to all destinations by nine to 29 per cent. Freight rates on other deck cargo destined to Stony Rapids increased by ten per cent, and to Fort Chipewyan by 20 to 30 per cent.

With the exception of Fort Chipewyan, to which rates quoted by both carriers were generally comparable, Frame's rates continued to be greater than those of MMTL. Increased freight rates filed by MMTL were, in most cases, well above the 1991 increases in the Alberta and Saskatchewan CPIs of 5.9 and 5.2 per cent respectively while Frame's increases were, in relative terms, similar to the changes in the cost of living.

MMTL complained about Frame's pricing practices.

The 1991 pre-shipping season saw MMTL lodge a complaint with the Agency regarding Frame quoting rates lower than those published and filed with the Agency in submitting bids for the carriage of freight for which MMTL was also competing. The Agency ruled that if Frame's bids were successful, it would be obligated to carry freight at these lower rates thereby putting it in contravention of subsection 218 (3) of the *NTA, 1987*. As such, the Agency disallowed an amendment to Frame's tariff that would have given the carrier the right to quote rates lower than those appearing in its published tariff. The Agency also ordered Frame to cease and desist this practice.

Athabasca shippers have been subjected to freight rate increases by Frame in each of the past four years. While declining tonnages in the system made, to some extent, rate increases unavoidable, Frame's hikes in its tariff were significant in 1988 and 1989, exceeding the Saskatchewan and Alberta CPIs in those years by a wide margin. However, the emergence of MMTL as a viable competitor to Frame should have the effect of dampening, to some extent, future rate increases for the movement, by water, of marine resupply shipments in the system.

Carrier Performance

In end of season discussions with MMTL, the carrier reported, for the second straight year, positive financial results attributable to a considerable increase in freight carried from 1990 to 1991 and a healthy rise in its 1991 freight rates.

In contrast, Frame's additional revenues accruing from 1991 rate increases could not counter declining tonnages, leaving the carrier allegedly no better off financially than at the end of the 1990 season.

Agency audited Frame's 1989 financial returns.

While MMTL has, to date, encountered no financial difficulties in providing marine resupply services in the Athabasca system, Frame has complained to the Agency annually over the past four years of its financial difficulties as a result of declining tonnages in the system and the need for an "operating subsidy" for it to continue to provide an acceptable level of resupply service. As a result of Frame's filed increase in its tariff in 1990, the Agency conducted a review in 1991 of the carrier's 1989 financial and accounting records to determine if these records properly represented regulated barging operations for the year. The Agency noted a number of accounting problems and deficiencies which impacted on the overall financial results of Frame's 1989 resupply operations. Moreover, the results of the Agency's audit suggested 1989 financial results significantly different from those reported by the carrier, findings which were disputed by Frame.

Carrier Complaints

Animosity between the system's two licensed carriers and LAT continued to escalate in 1991, culminating in a bevy of complaints to the Agency and the Canadian Coast Guard (CCG).

As mentioned in the tariffs section, MMTL initiated developments by filing a complaint with the Agency regarding Frame's pricing practices prior to start-up of the 1991 shipping season; after an examination of the facts the Agency ordered Frame to cease and desist the practice immediately.

Agency received several complaints from carriers in 1991.

Frame countered by petitioning the Agency to cancel the licence of MMTL. It contended that there was insufficient tonnage in the system to warrant more than one carrier and that two licensed carriers threatened the stability of resupply services. The Agency dismissed the carrier's claim.

Frame later complained about MMTL allegedly shipping deck cargo at trailer rates which were well below deck rates. MMTL subsequently denied the allegations.

The CCG was also contacted by Frame during the 1991 shipping season asking it to investigate possible violations of marine safety regulations by MMTL in the operation of its powered barge without required safety equipment. Frame also complained to the CCG that MMTL's master did not possess the proper qualifications certificate for operation of this barge.

Frame objected to LAT's licence application; MMTL did not.

Finally, Frame, along with NTCL, formally objected to LAT's 1991 application for a marine resupply licence and followed up with a further objection to LAT's request for a review of the Agency's denial of the application. Surprisingly, MMTL, the carrier most likely to be adversely affected by LAT's operations, did not contest LAT's original application or its request for the review. In conjunction with the above, Frame reported to the Agency, on four separate occasions, instances of illegal operations carried out by LAT during the 1991 season. As a result of an investigation of these charges carried out by the Agency and RCMP contingents in Fort Chipewyan and Fort McMurray, the season ended with the matter under review by the federal Department of Justice.

Other Developments of Note

Transport Canada said no to Frame's loan guarantee.

Prior to start-up of the 1991 shipping season, the Saskatchewan Department of Highways and Transportation lobbied Transport Canada to join it in supporting Frame's request for federal financial assistance in the form of a loan guarantee for the continuance of its marine resupply operations in 1991. Transport Canada responded that it could not participate in such a guarantee.

Alberta and Saskatchewan studied all-weather roads to Athabasca region.

1991 saw a rekindling of interest in all-weather roads in the Athabasca region, projects which would have considerable impact on the future of barging in the region. In updating a 1978 study of possible routes for an all-weather road between Fort McKay and Fort Chipewyan, Alberta Transportation and Utilities concluded that the estimated cost for such an undertaking, a lack of available funds and a long list of other pressing priorities, made it unlikely that such a road would be built in the near future. Saskatchewan and the CCG continued discussions into 1991 regarding the sharing of costs of the construction of an all-weather road linking the Saskatchewan communities of Black Lake and Stony Rapids with communities further south. The inability to agree on a cost sharing formula led to a breaking off of discussions; however, at year end Saskatchewan was again making overtures to CCG regarding the matter.

Future role of CCG in region still unclear.

The cancellation of the CCG Memorandum to Cabinet in 1991 regarding its future role in the region again left the issue of the continuation of barging in the system unresolved. Barging operations in the system are dependent upon the provision of dredging and navaids by the CCG. Although they provided these services in 1991, CCG had still not committed, at year end, to a long term plan for the region and continued to search for a cost effective alternative to barging as a means of community resupply in the Athabasca system.

Finally, the viability of barging services in the system continued to be adversely affected by increasing volumes of freight moved over winter roads, particularly the one between Fort McMurray and Fort Chipewyan which handled an estimated 3,000 tons in 1990-91.

1991 Survey of Athabasca Users of Marine Resupply Services
- Profile of Respondents -

- Responses were received from a community, native bands, provincial government departments and companies doing business in the region.
- Almost all freight moved in the system consisted of community resupply.
- Two-thirds of all responding shippers were regular/frequent users of marine resupply services.
- Almost 80 percent of respondents classified themselves as small or medium-sized shippers.
- 81 percent of shippers reported that the volume of freight moved by barge in 1991 either increased or stayed the same.

Users' Perspective

Slightly more Athabasca shippers participated in the Agency's 1991 survey of the quality and level of service provided by marine resupply carriers than in 1990. Survey respondents included all major users of marine resupply services in the system as well as many of the smaller shippers.

Level of Service

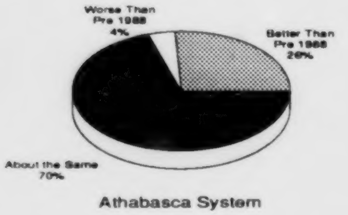
According to survey results, about two-thirds of Athabasca shippers, down from three-quarters in 1990, were of the view that the quality of marine resupply services they received in 1991 was the same as in the previous year. Another 29 per cent (compared to 12 per cent in 1990) thought that services had deteriorated.

The ratings given to Athabasca carriers on levels of service provided in 1991 improved substantially over results reported in the 1990 survey. A greater proportion of shippers than in 1990 rated carriers "acceptable" to "very good" on all service factors in 1991, as can be seen in Table 6.3. These improved ratings are no doubt a result of the existence of three carriers providing relatively regular service throughout the 1991 shipping season. Carriers especially saw significant improvements in their ratings on "frequency" and "schedule" by shippers.

TABLE 6.3
Athabasca Shippers' Assessment of Marine Resupply Services

	Very Good/Good %		Acceptable %		Poor/Very Poor %	
Criteria	**1990**	**1991**	**1990**	**1991**	**1990**	**1991**
Price/Rate	36	15	40	62	24	23
On-time Performance	35	35	42	46	23	19
Frequency	50	53	38	43	12	4
Schedule	50	41	36	52	14	7
Flexibility	54	58	25	25	21	17
Payment of Claims	61	48	30	48	9	4

FIGURE 6.20
Shippers' Ratings of Marine Resupply Services in 1991 Compared to Pre 1988



A new question in the 1991 survey asked shippers to compare services in 1991 to those received prior to 1988 -- 70 per cent of respondents rated them "about the same", about one-quarter rated them "better", and only four per cent rated services "worse". Regarding the level of service over the past four years, almost all Athabasca shippers rated carriers "acceptable" to "very good" with respect to "frequency" and "on-time performance", and just under three-quarters found "rates" to be within a similar range.

For Athabasca shippers, "rates" were again the most important consideration, mentioned by 56 per cent of respondents in 1991 compared to 62 per cent in 1990. "On-time performance" and "frequency" were distant seconds in 1991, as was also the case in 1990.

Freight Rates

Majority of shippers reported higher general freight rates.

While a majority of shippers found general freight rates to be higher in 1991, slightly less than one-half of respondents were of the same view regarding rates charged for bulk fuel. By comparison, a smaller proportion of general freight shippers and a larger proportion of bulk fuel shippers reported higher rates in 1990. Seven out of ten shippers found both general cargo and bulk fuel rates reasonable in 1991.

Competition

In the Athabasca, shippers were almost equally split in 1991 on whether or not they were captive to one carrier -- 41 per cent said yes while 44 per cent said no; the other 15 per cent were unable to say. The 1991 results represent somewhat of a reversal from those of 1990 when 46 per cent of shippers felt that they were captive. The 1991 survey also revealed that only 60 per cent of those who responded in the affirmative to this question were in favour of more competition.

Majority of shippers were negative on increased competition.

Increased competition, according to 39 per cent of responding shippers, would lead to lower rates, more frequency and reliability of service. On the other hand, the fact that there was already insufficient tonnage in the system and that business was limited and in decline convinced 57 per cent of Athabasca shippers that further competition was not desirable.

Use of Other Modes of Transport

Large majorities of shippers used other transport modes in 1991.

Shippers' modal proclivities in the Athabasca system did not vary from 1990 to 1991. Winter roads and air transportation continued to compete with barging for freight moving into and out of the region. Some 83 per cent of shippers, up from 75 per cent in 1990, reported using air transport as an alternative or supplement to barging in 1991. As was the case in 1990, a majority of shippers also utilized winter roads aside from barging in 1991.

With 83 per cent of responding shippers reporting air freight rates significantly higher than marine freight rates, it is not surprising that a good majority of shippers in the system still moved more freight by barge in 1991. In contrast, a majority of the shippers using winter roads in 1991 moved as much or more freight by this mode than by barge as a majority of Athabasca shippers reported winter road rates to be lower to much lower than barge rates.

Athabasca Shippers' Concerns as Reported in the Agency's 1991 Survey

Among concerns related to northern marine resupply that shippers would like to see addressed in the context of future legislative amendments are:

- Level of handling/terminal charges levied on shippers by Athabasca carriers
- Transparency and clarification of ancillary charges in marine resupply tariffs, including more Agency control over these charges
- Need for improved guidelines regarding inspection, insurance and licensing of marine resupply services
- Viability of marine carriers in the system
- Alternatives to barging, including all-weather roads

General Comments

Two-thirds of Athabasca shippers responding to the Agency's survey took the opportunity to provide written comments regarding northern marine resupply services.

A few shippers were positive about the services available in the system in 1991. They mentioned that rates were now "more negotiable" with two carriers providing services and extolled the importance of Athabasca barging services in resupplying communities at the east end of the lake, given the lack of a permanent winter road in the area. However, the vast majority of shippers who provided written comments voiced a number of concerns. One shipper complained that rate bases and surcharges applied by carriers were unclear; another suggested that carriers should make schedules (even tentative ones) available to give shippers "more lead time in ordering materials". Other suggestions included more freight rate control, reining in "handling charges which were out of hand", the need to extend the shipping season to avoid the use of more costly air transport, and the need for an all-weather road. Another shipper complained about the illegal operations of LAT and the problem its customers would have "should a major loss [of cargo] occur".

Three of four shippers, commenting specifically on the services of Frame, the system's principal carrier, criticized it for a too infrequent service, charging rates "twice those of the other carriers" and called for the Agency to review Frame's handling and loading costs which are "excessive and out of context". The one positive comment received from a major shipper lauded Frame for upgrading its operations to minimize the risks associated with handling bulk fuels.

Comparison of Survey Results From 1988 Through 1991

There was little change in shippers' general views of service levels from 1988 through 1991.

In comparing year-to-year survey results, on average, Athabasca shippers described marine resupply services they received in each of the four survey years as "the same" as that received in the previous year, although the majority holding this view varied from a high of 78 per cent in 1988 to a low of 65 per cent in 1989. Interestingly, in 1988, 18 per cent of shippers perceived marine resupply services to be "better" than in the previous year; but, by 1991, results indicated that 29 per cent characterized services as "worse" than in the year before.

With reference to individual level of service criteria including, among others, "rates", "on-time performance" and "schedule", a majority of shippers rated carriers "acceptable" to "very good" on all aspects of their service over the period 1988 through 1991, with one exception. In 1988, 60 per cent of responding Athabasca shippers indicated dissatisfaction with rates being charged by carriers in the system, but ratings on this factor improved substantially in 1989 and subsequent years.

In three of the four years in which shippers were surveyed, "rates" were identified as the most important service level factor to the Athabasca shipper; only in 1989 did "on-time performance" rank higher.

Shippers reported higher but reasonable rates from 1988 through 1991.

Slightly more than half of responding shippers in each of the four years reported increases in general freight rates; although, with the exception of 1988, large majorities described these rates as reasonable. Bulk fuel rates were reported to be about the same or lower (except in 1990) by a majority of shippers in three of the four years surveyed. Bulk fuel rates were found to be reasonable by a majority of shippers in all years except 1988 when these rates were viewed as excessive.

Shippers' views on increased competition fluctuated.

Over the past three years, the proportion of shippers viewing themselves as captive to one carrier has diminished from 56 per cent in 1989 to 41 per cent in 1991. On the other hand, the number of shippers favouring increased competition has oscillated, with majorities responding in the affirmative in 1988 and 1990 when shippers were forced to rely upon one principal carrier, and in the negative in 1989 and 1991 when two licensed carriers provided service in the system.

Athabasca shippers tended to be more satisfied with marine resupply services in those years when they were offered a choice of carriers and made these views known in their written comments submitted to the Agency.

Impact of Part V

Of the four licensed Mackenzie system carriers, three were generally satisfied with Part V of the *NTA, 1987* and made it known to the Agency that the present legislation is a significant improvement over licensing requirements imposed under the previous "*Transport Act*" regime. Over the past four years, the smaller carriers in the system have stated on a number of occasions that the streamlining of licensing requirements under Part V has had a positive impact on their operations. Moreover, the deregulation of movements of resource sector and national defence cargoes has, to some extent, eased the administrative burden and associated costs on all carriers in the Mackenzie system. NTCL declined to share its views on the impact of Part V, preferring instead to reserve its comments for a submission to the Comprehensive Review Panel.

Mackenzie and Athabasca carriers generally satisfied with Part V.

In the Athabasca, marine resupply carriers voiced similar positive views regarding the relaxing of licensing requirements under Part V. The licence transfer provisions in Part V, not an issue in the Mackenzie system, appear to have been a mixed blessing in the Athabasca system since its enactment. On the one hand, shippers have enjoyed the services of two licensed carriers in the past two years as a result of MMTL's acquisition of a marine resupply licence through its purchase of the assets of a previously inactive carrier. On the other hand, Frame, the principal carrier in the system since 1984, has seen its market share eroded over the past two years as a result of competition with MMTL to the point where the carrier claimed that its continued viability was threatened.

As well, changes from annual to indefinite licences combined with the transfer provision, have led to marine resupply licences, especially in the Athabasca, acquiring substantial value.

The deregulation of resource sector and national defence freight movements would appear to be of no consequence in the Athabasca system as almost all freight moved by barge is destined for the resupply of communities.

Shippers' unfamiliarity with Part V did not deter them from commenting on rates and level of service.

Both Mackenzie and Athabasca shippers have shown indifference toward Part V over the years. Although most are aware that tug and barge operations are regulated to some extent, many remain unfamiliar with the actual statute that governs the provision of marine resupply services in the north. However, this fact has not deterred some of them from expressing their views to the Agency on rates and level of service provided by marine carriers over the past four years.

In another vein, the smaller carriers in the Mackenzie system questioned whether the Agency's Annual Reporting forms could be further streamlined and the financial sections of those reports be made to correspond more closely to the financial statements on annual operations received by carriers from their accountants (see box).

In the Athabasca system, Frame expressed the view that Part V was generally adequate as outlined. The carrier did, however, take the Agency to task for failing to enforce non-compliance in licensing matters in a timely fashion. Frame also called for filings to focus on shipping and related matters and not the business of a tug and barge operator's affiliated companies. Other suggestions by the carrier included filing operational and financial reports, which would not necessarily be incorporated into the company's year end financial statements, within 60 days of the season's end. MMTL, the system's other licensed carrier, was generally satisfied with Part V provisions.

Carrier/Shipper Concerns Emerging From Four-Year Monitoring of Part V

Considerations under Part V

- Review the need for a more concise definition of community resupply to eliminate confusion regarding "special projects".
- Consider changing the filing of proposed tariff increases with the Agency, from the present 30, to 60 or 90 days before their effective date to allow for a more thorough analysis of the tariff's reasonableness.
- Amend Part V to eliminate sections dealing with the transition from previous legislation to Part V and the "grandfathering" of previously licensed carriers.

The Agency's Northern Marine Resupply Regulations

- Examine the possibility of revising annual reporting forms to facilitate completion by licensed carriers; simplify financial sections of present reporting forms to make them compatible with financial statements received by carriers from accountants.
- Consider making the Agency's assessment of marine resupply tariff increases more transparent to shippers.

MARINE SERVICES

Great Lakes Package Freight

Highlights of 1991

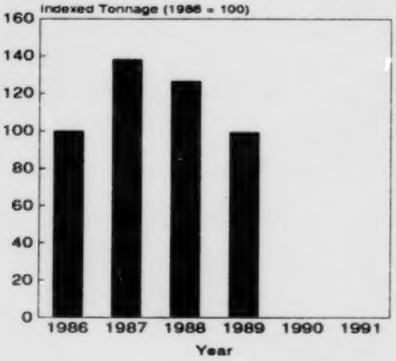
Woodlands Marine Fails to Provide a Service for the Second Straight Year

For the second straight year, there was no general freight common carriage service on the Great Lakes. Sluggish demand for water transport services from the forest products sector and its inability to find a suitable replacement vessel prevented Woodlands Marine from re-introducing its Windsor-Thunder Bay service.

Recent Developments

Lack of demand and a suitable vessel stymie Woodlands operations.

FIGURE 6.21
Indexed Package Freight Movements by Woodlands Marine 1986 - 1991



Woodlands Marine, the last general freight common carrier on the Great Lakes, did not provide an all water service between Windsor and Thunder Bay for a second straight year. While the carrier continued to quote rates to prospective customers in 1991, insufficient demand brought about by the closure of forest products mills in Northern Ontario (the mainstay of Woodlands' traffic) prevented the carrier from re-introducing its package freight service.

Present circumstances surrounding the Woodlands service do not augur well for its re-introduction in the near future. In fact, as indicated in a 1990 study of the continuing demand for a package freight service commissioned by the Ontario Ministry of Transportation and Communications and the Ports of Windsor and Thunder Bay, Woodlands relied heavily on Northern Ontario forest products to maintain its service. Adding to its difficulties was Woodlands' inability to find a suitable substitute for the roll on/roll off vessel (the "M.V. Woodlands") it had chartered prior to 1990.

The period 1988 through 1991 saw a steady deterioration in key indicators measuring Woodlands' viability; namely, tonnages carried, revenues earned and frequency of service, to the point where, in 1990, the carrier suspended operations.

Market forces, not legislative reform, seal Woodlands' fate.

While it was feared that deregulation of the package freight industry in 1988 would lead to increased competition driving Woodlands and prospective competitors out of business, this did not occur. In the end, it was the considerable decline in the southbound movements of forest products coupled with the carrier's inability to acquire a suitable and reasonably-priced replacement vessel -- and not the transportation legislative reforms of 1988 -- that sounded the death knell for Woodlands.

INTERMODAL SERVICES

Highlights of 1991

Double-Stack Rail Services

CN initiated the first domestic double-stack train service in Canada between Moncton, Montréal and Toronto. Conrail and CP Rail teamed up to also offer double-stack service from Chicago to Montréal and Toronto.

Carrier Alliances

RoadRailer trains between Detroit and Toronto were introduced through interlining services between Norfolk Southern and CP Rail. In the U.S., joint truck-rail initiatives are a growing trend.

Major Intermodal Investments

Railway tunnels clearance and construction projects were indicative of future commitments by Canadian railways to double-stack technology.

Competition

Improvements implemented in inland transportation to various North American ports are having an impact on shipping lines' route assessment strategies. As a result, ports have to compete more aggressively to guarantee that shipping lines continue to call.

Intermodalism

Intermodal activities parlay the strength of various modes to offer transportation services at a lower cost. Intermodalism has made significant strides in recent years but it is still developing. More and more intermodal services are perceived as cost- and service-competitive by many in the shipping industry. With improvements in service levels, new electronic data interchange systems, guaranteed and customized delivery programs, and high on-time performance levels, intermodalism offers shippers numerous alternative choices. The synergies of bimodal strength become more obvious as the transportation environment evolves and working alliances between modes are not only more accepted, but tied to both survival and expansion strategies.

Intermodal Bridge Systems

The overland portion of international intermodal movements is referred to as either:

landbridge, e.g., movement on one ocean bill of lading from Asia to Europe via rail and/or truck across North America;

minibridge, i.e., movement to a port city on the opposite coast for further distribution;

or

microbridge, i.e., traffic from a port to an inland destination.

Developments in 1991

Double-Stack Container Train Service

CN first introduced double-stack services in September 1990 between Vancouver and Toronto/Montréal for OOCL and started serving another shipping line, Evergreen, as of April 1991. Initially the CN double-stack services provided to Evergreen consisted of six cars a week that were later increased to ten to twelve weekly cars. CN also began providing double-stack services for "K" Line in 1991.

CN initiated first domestic double-stack service in Canada.

In June, CN also initiated the first Canadian domestic double-stack container freight service. The service, introduced in the Moncton-Montréal-Toronto corridor, will be expanded to the Toronto-Edmonton corridor. This is in line with the railway's decision made in 1990 to recapture long-haul traffic lost to trucking and to convert its trailer fleet to domestic containers by 1995. The carrier followed this announcement with a plan to acquire 500 domestic 48-foot containers and 100 double-stack cars, each consisting of five platforms capable of carrying either domestic or ocean containers, or up to 53 feet long trailers.

In August, CN started using double-stack cars to handle containers to and from the port of Halifax. At first, the service was limited to a carrying capacity of 100 TEUs as it was offered with five leased double-stack cars. By September, the service was extended to Toronto via the Halifax-Montréal-Toronto corridor. The service employed 30 double-stack cars, with a total carrying capacity of 600 TEUs. The Nova Scotia government has been instrumental in the implementation of this service by agreeing to pay the leasing costs of the cars for the first three and one-half years of a ten year deal negotiated with CN. Tied to this initiative is CN's agreement to undertake some clearance work to allow for the movement of two high 9 foot 6 inch containers between Moncton and Halifax. The service also required strengthening of the road bed for the heavier loads involved in double-stack movements. CN also decided to combine domestic and overseas container traffic to generate volumes sufficient to make double-stack services profitable.

Conrail, the primary rail carrier serving the port of New York/New Jersey, has completed its clearance project which allows double-stack service from this U.S.

east coast port to and from Chicago. Conrail has teamed up with Burlington Northern (BN) to offer this service between Port Newark and BN's Chicago terminal, and with CP Rail from the on-dock Maher Terminal and the Elizabeth Port Authority Marine Terminal, for service to Montréal and Toronto, where containers are delivered within 24 and 32 hours, respectively.

In July, Norfolk Southern, a U.S. railway, launched a stack-train service to Chicago from Norfolk International Terminals, the largest container facilities at the port of Virginia.

Carrier Strategic Alliances

Air Canada Cargo introduced a new trucking link between Detroit and Toronto, allowing shippers to pre-clear Canadian customs and to guarantee their choice of flights on the Air Canada Cargo system. In order to offer this service five times a week, Air Canada is booking space on trucks travelling to Detroit from Michigan, Ohio, Illinois and Indiana.

CP Rail has started to interline with Norfolk Southern's RoadRailer trains between Detroit and Toronto. The RoadRailer is a hybrid vehicle that can be operated both on highways and railroads - a technology which enhances the ability of rail to compete against trucking over short to medium distances and in high volume corridors.

Numerous joint truck-rail intermodal initiatives were implemented in the U.S. in 1991.

A number of joint truck-rail initiatives south of the border took place in 1991. They were aimed at either attracting business away from shippers' agents or taking cargo off the highways. The relationship that has developed in the U.S. between trucking firms and railways has been influenced by factors such as a shortage of truck drivers and cost considerations. These affiliations appear to be a growing trend in the U.S.; although less prevalent in Canada, such partnerships are closely monitored by Canadian carriers. In the U.S., the following truck-rail affiliations took place in 1991:

> BN and J.B. Hunt Transport Services Inc. signed an agreement to begin a new intermodal service between the midwest and the pacific northwest regions. J.B. Hunt's traffic is handled daily on BN's top priority intermodal trains between Chicago and Portland.
>
> KLLM Inc., a Missouri-based truckload carrier that specializes in hauling temperature-controlled freight, copied the J.B. Hunt initiative. Through an affiliation with the Atchison, Topeka and Santa Fe Railway Co., KLLM moves refrigerated trailers on rail cars from produce-growing areas in California to terminals in Chicago, Kansas City and Forth Worth.
>
> Wisconsin-based Schneider National Inc., a truckload van operation, followed KLLM's lead and started moving freight in 48-foot double-stack containers on rail cars owned by Southern Pacific Transportation Co.
>
> Southern Pacific Transportation Co. started a joint venture with May Trucking Co., a regional U.S. truck line, to move goods by intermodal train to and from the west coast. Southern Pacific uses the trucking firm to move freight to and from its Portland and Los Angeles terminals via its Pacific Coast Express service every four days.

Norfolk Southern Corporation combined the services of its trucking and rail subsidiaries with the intent of coordinating movements of its Triple Crown Service flatcars and North American Van Line trailers on long hauls.

Carolina Freight Carriers Corp., a Non-Vessel Operating Common Carrier (NVOCC), and Sea-Land Service Inc., a major U.S. shipping line, have teamed up to offer a service between Asian ports and a number of cities in the southeastern United States. Sea-Land carries the freight from Asia to California where it is put on double-stack trains destined to Carolina Freight's breakbulk terminal in Atlanta, from where overnight delivery is offered to a number of cities in the region.

Large international shipping lines offered their own intermodal services.

A number of foreign shipping lines have established their own U.S. subsidiaries to market their intermodal services. In 1991, an OOCL subsidiary, Express System Intermodal (ESI), reached an agreement with the Santa Fe Railway Co. to move all its intermodal traffic between Los Angeles and Chicago. With this agreement, Santa Fe coordinated the availability of double-stack train spaces to meet the requirements of the twice weekly OOCL service at the port of Long Beach. Southern Pacific also handles ESI traffic to the U.S. southeast markets via U.S. Gulf ports.

Intermodal Developments and Investments

In June, CP Rail initiated a $15 million tunnel clearance project. When completed in December 1992, this project will have increased the vertical clearance of numerous tunnels on the Rogers Pass line to allow double-stack container service between the port of Vancouver and eastern Canada. During the year, CP Rail operated six double-stack cars between Montréal and Toronto to test equipment logistics and handling characteristics in port terminals.

CP Rail opened its Vaughan terminal.

CP Rail started operating its Vaughan intermodal freight terminal, outside of Toronto, equipped with three gantry cranes, each with a lifting capacity of 40 tonnes. Each crane serves a freight-handling system composed of two roadways, four railway tracks, and a sorting and storage area for containers. The terminal also handles piggyback truck shipments. The terminal, with a capacity of about 110,000 trailers and containers per year, will handle western Canada domestic traffic and international marine containers moving to and from west coast ports. CP Rail's Obico Terminal near Etobicoke is to continue to handle marine containers to and from the east coast ports and destined for or originating from eastern Canada and the U.S.

CN continued a $15 million expansion of its Brampton terminal, a project that will double the terminal's capacity and allow it to compete more effectively with trucking.

CN has announced plans to build a $155 million new rail tunnel beneath the St. Clair River connecting Port Huron, Michigan and Sarnia, Ontario. When completed in 1994, it will accommodate stack trains and tri-level auto carriers.

BC Rail opened its newly rebuilt intermodal facility equipped with trailer-lifters and relocated trackage allowing more efficient sideloading of trailers onto trains. The new facility includes a lumber reload shed and a covered area for the efficient transfer of forest products from rail to road equipment. BC Rail's intermodal railcar fleet was also upgraded with the addition of 15 three-platform articulated cars for handling trailers and containers.

Intermodal Technological Development

Technological advances in refrigerated containers have allowed for longer shipping times to more distant destinations, the handling of more delicate commodities and less spoilage of produce. These advances are undergoing some testing in the U.S. with a view to applying this technology to overland hauling.

Intermodal Services

Shippers' Perspective

Use of intermodal services was more prevalent in some industries.

As in 1990, the Agency's 1991 Shippers' Survey confirmed that the use of intermodal services was more prevalent in a few selected industries -- food products, plastic products, fabricated products, electrical and electronic products, chemicals and chemical products, and wholesale trade. The use of intermodal services was also significant in the machinery industry and the retail sector in 1991. On the other hand, intermodal services became less important to the paper and allied products industry.

Shippers reported lower average increases in 1991 intermodal rates than in those of 1990. The reported average increases ranged from 0.8 per cent in domestic intermodal services to 1.8 per cent in international intermodal services. For transborder services, an average increase of 0.9 per cent was noted. Better rate conditions were reported by shippers dealing directly with carriers than by those making their intermodal arrangements through intermediaries. However, rate conditions obtained did not differ significantly between the two approaches. The 1991 survey results did not provide any evidence suggesting that shippers who increased the volume of their intermodal shipments obtained better rate conditions. It would appear that volume is only one of many considerations influencing the determination of an intermodal rate and changes in rate levels. All but four shippers surveyed using intermodal services for more than 50 per cent of their total traffic, reported rate increases of less than eight per cent. For domestic and transborder truck-rail trailer and container intermodal traffic, rates either came down in 1991 or increased marginally.

Shippers' comments vis-à-vis truck-rail intermodal services differed. At one extreme, one shipper said that:

> "Intermodal services have been competitive or superior to truck. There has been an adequate pool of equipment and trailers/containers available for delivery on time. There has been a greater degree of pricing flexibility during the past twelve months than experienced any time in the past."

Intermodal services must become more flexible.

At the other extreme, a shipper, in referring to intermodal services stated: "Great one day, lousy the next." Survey findings and comments received during interviews of trucking firm officials confirmed that railways were more aggressive in 1991 in their pursuit of intermodal traffic. In general, shippers were of the opinion that intermodal services, especially rail, must become more flexible in order to meet customer needs.

In their assessment of the changes in intermodal services, a number of service factors were quoted more often by shippers in 1991 as having improved, namely, "carrier cooperation", "overall quality of service", and "transit time". Other factors were also identified by a significant but smaller number of intermodal service users as having improved; they were "service frequency", "service reliability" and "claims handling". On a sectoral basis, changes in services reported did vary, reflecting the different needs of each sector. Yet, three factors -- "carrier cooperation", "overall quality of service" and "transit time" -- were most frequently identified by shippers from all sectors as having improved in 1991, the ranking and magnitude of the improvement in each factor varying from one sector to another. In Atlantic Canada, improvements noted were significant. In 1990, only 27 per cent of Atlantic Canada had reported some improvement in intermodal services; a year later, half of Atlantic Canada shippers surveyed were of the same view. In central Canada, the proportion of shippers noting improvements increased only marginally between 1990 and 1991. In the west, the proportion of shippers benefitting from improved intermodal services rose from 27 per cent to 42 per cent between 1990 and 1991.

Shippers report general improvement in level of intermodal services.

Port Terminal Operators' Perspective

For certain intermodal traffic involving water transportation, port terminal operators are important links in the transport chain in the shipment of goods from the producer's door to the customer's door. In simple terms, the challenge faced by port terminal operations is one of co-ordinating their own schedules with those of marine and surface transportation modes in a seamless way to allow for the efficient and reliable distribution of goods.

Each port terminal operation is somewhat unique in terms of its access to surface transportation services, and in terms of rate and service combinations available at its facilities. For the second year, port terminal operators were surveyed by the Agency to obtain their views on evolving transportation services and their impact on port terminal operations.

Railways continue to show interest in traffic to port terminals.

In 1991, the proportion of terminal operators reporting that railways were interested in the traffic to and from their terminals was higher than in 1990. Such a trend was also observed among shippers. Port terminal operators were complimentary about rail equipment condition, car tracing and railways' cooperation. However, their assessment of switching services, service reliability and the overall efficiency of rail services was less positive.

Terminal operators were less complimentary about trucking services.

As for trucking services available to port terminal operators, a slight deterioration in 1991 was noted. None of the operators had reported "significant deterioration" in 1990 but some did in 1991. In 1990, survey results had operators reporting "significant improvement" in trucking services while none did in 1991. When examined in terms of service factors, it appears that operators' assessments were influenced by "liability coverage", "claims handling" and "carrier cooperation". Port terminal operators were more positive in 1991 than in 1990 about "transit times" of trucking services. Other service factors also highly rated were "service frequency", as well as the "overall quality" and "efficiency" of trucking services.

Intermodal Traffic

Shippers

In 1991, 45 per cent of shippers surveyed indicated using intermodal services. Since 1988, the proportion of shippers that have reported moving goods intermodally has been increasing (37 per cent in 1988 and 1989, and 40 per cent in 1990). In the four years over which the Agency has conducted its Shippers' Survey, a larger number of shippers reported increases in their intermodal traffic than decreases. Increases in intermodal traffic were more prevalent in the international market than in the domestic and transborder markets. Yet, counter to this trend, survey results indicated that the proportion of shippers' traffic moving intermodally has been declining, from 20 per cent in 1988 to 16 per cent in 1990 and 1991, a trend reflecting the overall evolution of demand for transport services over the 1988 to 1991 period.

In 1991, as in previous years, the Shippers' Survey confirmed that truck-rail (both container and trailer-on-flat car) was the dominant type of intermodal service being used in the domestic and transborder markets. The truck-marine combination appears to be gradually disappearing in the domestic market but continues to dominate international intermodal services along with the truck-rail-marine combination.

The survey also revealed that a wide variety of industries and all sizes of shippers utilize intermodal services. The importance of intermodal services in a shipper's total traffic is not related to its size. A significant proportion of intermodal users were single-facility companies.

Railways

As in 1990, the volume of intermodal traffic carried by the two major railways declined slightly in 1991. The total of 12.2 million tonnes of traffic handled represented a reduction of 3.4 per cent over the previous year's traffic level. From 6.8 per cent of total traffic in 1990, rail intermodal was down to a 6.4 per cent share of 1991 total traffic. Railways' intermodal traffic has been declining since 1988 and, in fact, 1991 intermodal traffic tonnage was 8.7 per cent less than the volume moved in 1988. The drop is attributed to both trailer-on-flat car (down four per cent) and container-on-flat car (down 10.7 per cent) traffic.

CN's container traffic peaked in 1989 while that of CP Rail did so in 1988. In the past two years, of the two major railways, CN has been the one experiencing the most significant drop in container traffic, mainly in its international trade related container traffic. Ontario, a province hit hard by the recession, was the region experiencing, in absolute terms, the most significant reduction in its originating and terminating container traffic in 1990 and in 1991.

CP Rail's domestic container traffic increased until 1989 and has decreased since then. CN's recently announced plans to have, by 1995, all domestic intermodal traffic moved in containers has started to pay dividends as its volume of domestic container traffic has increased. In percentage terms, the increase is of importance, but in terms of tonnage, it still represents a relatively small volume of traffic, with CN's gains in domestic container traffic being less than CP's loss.

The increased volume of container traffic at the port of Vancouver in 1991 translated into increased import container tonnages moved by rail in British Columbia. On an origin-destination pairing basis, container traffic to and from central Canada to eastern ports, mainly Montréal and Halifax, has accounted for a significant proportion of rail container traffic growth in past years. The drop in railways' container traffic in recent years came also from these pairings. The fact that Halifax's container traffic decreased in 1991 as a result of shipping lines' decisions to stop calling at the port, explains this drop in traffic.

Rail confidential contracts, allowed since 1988, were gradually embraced by shippers, shipping lines and freight forwarders in the movement of intermodal freight. From a total of four such contracts in 1988, the number reached 34 in 1989, 30 in 1990 and jumped to 110 in 1991. This substantial increase was due to confidential contract initiatives on the part of CP Rail.

Trucking Firms

In 1991, in the sample of motor carrier firms interviewed in the Agency's review program, 56 per cent of the firms indicated that they were providing intermodal services. This percentage has been basically constant since 1989, the first year intermodal questions were posed in the Agency motor carrier interview program. On average, for most of these trucking firms, intermodal activities accounted for less than 10 per cent of their total traffic volume and revenues. Only a few small and medium-sized trucking firms generated more than 10 per cent of their total traffic volume and/or revenues from intermodal activities. On average, truckers reported intermodal to be 16 per cent of their total traffic.

In British Columbia, more trucking firms reported increases in their 1991 volumes of intermodal traffic, a finding in line with rail intermodal traffic originating or terminating in the province as well as the increased volume of container traffic handled at the port of Vancouver. In Alberta, drops in rail intermodal traffic can explain the lower number of Alberta-based trucking firms reporting increases in their 1991 intermodal traffic volume. As for Manitoba, in both 1990 and 1991, a significant proportion of carriers reported decreased volumes of intermodal traffic while Saskatchewan-based carriers interviewed have been able to sustain their intermodal volumes over these same years. In Ontario, fewer carriers reported increases in intermodal traffic in 1990 and 1991 than in 1989. In Québec, the proportion of trucking firms with increases, decreases or no change in their intermodal volumes has been relatively constant between 1989 and 1991. In Atlantic Canada, the lower container traffic volumes at the port of Halifax explained the significant decline in the number of Atlantic Canada based carriers experiencing increased intermodal activities. For this region, most carriers interviewed in 1991 indicated no change from their previous year's intermodal activities.

Only relatively small trucking firms (less than 150 tractors) indicated that they participated in intermodal activities arranged by railways. In the case of piggyback operations, cutting the line haul costs on movements over 900 miles was the incentive to go intermodally. Some trucking firms reported that railways were more aggressively chasing intermodal traffic. For others, improved rail intermodal services have allowed their intermodal traffic to grow. But there were firms deploring the fact that railways continued to refuse to deal with them as wholesalers of capacity to the trucking industry. Between 1989 and 1991, the number of firms indicating that they had been asked to participate in intermodal activities arranged by railways declined.

The vast majority of large trucking firms interviewed reported arranging door-to-door intermodal transport. But there were also some large trucking firms participating in intermodal operations arranged by freight forwarders and/or ocean carriers. From 1989 to 1991, trucking firm officials interviewed showed an increasing preference for arranging door-to-door intermodal movements.

Ports

Total cargo handled at all Canadian ports increased slightly in 1991. With 182 million tonnes of cargo handled in 1991, Canadian ports handled only 2.6 per cent less than their record volume of 1988. Increases in dry bulk tonnages handled at the ports were more than sufficient to offset the drop in general cargo handled. Ports' grain traffic was up 21 per cent to 24.9 million tonnes, but still were short of the 31.7 million tonnes handled in 1987.

Container traffic handled in 1991 at Atlantic Canada ports declined while it increased at Montréal and Vancouver.

With respect to ports' general cargo traffic, 1991 container traffic at Canadian ports - 12.6 million tonnes - was less than the 12.9 million tonnes handled the year before. Three of the five major Canadian container ports -- Halifax, St. John's and Saint John -- reported decreases in the number of TEUs handled in 1991 over 1990 of 20.1, 12.5 and 7.8 per cent, respectively. On the other hand, Montréal and Vancouver handled 1.3 and 18.9 per cent more TEUs, respectively in 1991 than in 1990. Together, the five major Canadian container ports handled 2.3 per cent fewer TEUs in 1991 than the year before. Non-containerized traffic handled increased marginally in 1991, but still did not attain peak traffic volume levels of 1988.

Competition

Intermodal transport services are being offered in a highly competitive marketplace. Certain services such as domestic truck-rail services are in direct competition with all-rail and/or all-truck services. Other intermodal services such as those to and from ports, are competing against similar services serving other ports. In this latter case, the competition is between intermodal transportation systems and not between specific services. In simple terms, however, both types of competition faced and/or generated by intermodal services are a function of rate considerations as well as service issues such as reliability, transit time and efficiency of service.

Intermodal Services

The introduction of domestic double-stack container services, the announcement in 1990 of CN's plan to have, by 1995, all of its domestic intermodal traffic moving by containers, and the railways' tunnel and bridge clearance projects will have far-reaching implications for future intermodal activities. The combination of domestic and overseas containers is also part of a forward looking strategy aimed at making double-stack services profitable in the Canadian business environment. These strategies have been introduced because of the increased level of competition in the market place. They constitute, to some extent, both the Canadian reaction to changes already implemented in the U.S. which have impacted on the Canadian market and the Canadian strategy to take part in evolving trading patterns.

As for single-mode services, intermodal transportation is being offered in a context of vanishing borders, globalization of economic activities and shifts in trade patterns. Both Canadian railways have integrated their operations with those of their U.S. subsidiaries, a move indicative of this vanishing border trend. Competition in such an environment is of a much broader scope. Economies of scale, density and/or scope are (and have to be) exploited to retain market share and/or to gain competitive advantages over alternative transportation services or systems. While cost considerations are important in determining relative competitive positions, service factors dictated by logistics considerations are just as, if not more, important.

In Canada, in the past four years, there has been no indication, despite railways' intermodal investments, of a shift towards the more extensive use of intermodalism. The fact that excess capacity prevailed in rail and trucking during the period could explain why each mode wanted to retain its traffic base as opposed to share it. As a result, motor carriers and railways in Canada have not entered into strategic alliances as have some major trucking firms and railways in the U.S. The relationship between the two remains one dictated by competitive considerations. It appears that both parties continue to see themselves mainly as retailers, and not wholesalers, of intermodal services.

Intermodal Services and Ports

Competition among ports is not new. Ports are being forced to adopt new and different strategies to maintain or to increase cargo volume. The most important factors affecting ports have to do with global trade pattern shifts, ocean carriers' rationalization plans, introduction of larger vessels leading to reductions in the number of ports of call, and improved inland transportation favouring landbridge traffic and saving on total transit time and ocean-related costs. Because of all these factors, rivalries between North Atlantic ports -- Montréal, Halifax, New York, Boston, Baltimore, Philadelphia, Norfolk -- have intensified.

Intermodalism continues to be a key element in ports' competitive strategies. In 1991, Canada Ports Corporation's Container Competitiveness Committee released a public version of its final report whose objective was to examine the competitiveness of Canadian container ports and routings in relation to ports in the U.S. The Committee concluded that:

> "... in order to improve the competitiveness of the Canadian container ports and their surface partners, an increased, stable, balanced volume of container traffic is required. This volume may be best achieved through support for a competitive intermodal system for container cargo transportation ..."

Emerging from this landmark study were numerous recommendations, principal among which were:

> "... that Ports Canada participate actively in the development and promotion of a competitive intermodal transportation system to and from Canadian and inland points ..."

> "... that the need for a competitive Canadian intermodal system be pursued ... with the principals of CN and CP Rail under the auspices of Transport Canada ..." and

> " ... that the Federal Government formulate and support a national intermodal transportation policy from which a national container strategy can be developed ..."

CPC Outlines Intermodal Strategy to Industry

Following upon the Container Competitiveness Committee's report, in a subsequent presentation to industry, Canada Ports Corporation outlined its perception of requirements for the development of a Canadian intermodal system and the improvement of the competitiveness of Canada's container ports. These were, in brief, the development of sufficient cargo volumes, the improvement of carriers' cost structures, the improvement of the efficiency of the Canadian intermodal system and the development of new technologies and innovations which would "... ensure the competitive position of Canada's ports, inland carriers and their infrastructures ..."

Successful intermodalism and the survival of container ports in Canada, according to the "Port Competitiveness Study", is "more dependent upon efficient, effective and competitively priced rail transportation than on any other element in the intermodal chain ...". Recent changes in rail connections' transit time at different Canadian and U.S. ports have intensified the competition between ports (Table 7.1). With the new double-stack rail service offered by Conrail and CP Rail (made possible by CP Rail's acquisition of the Delaware & Hudson Railroad), New York/New Jersey hope to position its port as the primary load centre on the North Atlantic. This rail service reduces transit times between New York, Montréal and Toronto and is expected to also benefit the port of Montréal. But this new Conrail/CP Rail service is a very time-competitive rail connection when compared to the one linking Halifax to Montréal and Toronto. The new D&H/CP Rail service from the port of Philadelphia to the Montréal and Toronto markets has also meant time-competitive rail connections compared to CN services between the port of Halifax and Montréal/Toronto. Given that central Canadian traffic accounts for nearly 60 per cent of container volumes handled through the port of Halifax, these developments are of considerable importance to the port's container cargo base, eliciting the following remarks from the Halifax-Dartmouth Port Development Commission:

> "Now that the D&H/CP service, together with the Ports of New York and Philadelphia, are offering programs specifically to attract central Canadian exporters and importers to route their cargo directly through U.S. ports, container traffic at all Canadian east coast ports is in jeopardy, and the viability of the main rail lines from Halifax/Saint John to central Canada is at risk."

The Commission added that "the competitive market predicted by the *NTA* [1987] will not materialize if Canadian shippers become captive to the U.S. transportation system."

TABLE 7.1
Transit Time and Distance by Rail

City (Railway)	Montréal Hours	Montréal Miles	Toronto Hours	Toronto Miles
Montréal (CP Rail)	–	–	9	340
Saint John (CP Rail)	18	575	32	816
Halifax (CN)	52	772	61	1,103
Philadelphia (D&H)	36	596	48	582
New York (Conrail/CP)	24	590	36	760

Shipping lines, through their service-related decisions, also impact on ports' competitive positions. When a line leaves a port for another port, the former suddenly becomes more aggressive in its strategies to capture traffic. Shipping line decisions which, in the end, impact on ports are based on market and/or service strategies whose elements were the following:

- deployment of fewer but larger ships;
- joint container services;
- space/slot charter agreements;

- coordination of sailings;
- limitation of carrying capacity on a trade to stabilize the market.

The strategies adopted by lines are dictated by conditions of the trade on the routes they serve (e.g., balanced trade in both directions). In deciding at which ports to call, shipping lines place much importance on inland transportation connections and the cargo base that can be served from any given port.

Canadian cargo moving to Pacific Rim countries now has a shorter route through the U.S. as a result of a joint initiative of the port of Tacoma and the Northern Express Transportation Authority of Shelby, Montana, a city strategically located near the Canada-U.S. border. The strategy adopted allows heavier Canadian trucks to transport cargo between the border and Shelby's BN rail depot. This initiative is targeting Alberta and Saskatchewan containerized cargo for loading in Tacoma on Asia-bound ships. This could result in additional Canadian cargo being transshipped through a U.S. port.

Based on the Journal of Commerce's PIERS database, Canada's export cargo transshipped through U.S. ports totalled no less than 115,000 TEUs annually in 1989 and 1990; Canadian import cargo transshipped through U.S. ports represented no less than 155,000 TEUs. This number of Canadian export and import TEUs transshipped in 1990 through U.S. ports represented close to 19 per cent of the total number of TEUs handled at Canada's five major container ports that same year. In terms of tonnage, the transshipped Canadian traffic represented less than two per cent of total Canadian port traffic (some U.S. cargo is transshipped through Canadian ports but is not addressed here).

Eighty per cent of Canadian import transshipments (TEUs) through U.S. ports were carried by six ocean shipping lines -- American President Lines (APL), Evergreen Line, Hanjin Shipping Company Ltd., "K" Line, Maersk, and Sea-Land. These same six lines were responsible for carrying over 60 per cent of Canada's export trade (TEUs) transshipped through U.S. ports (63 per cent in 1990 compared to 65 per cent in 1989) in the two years analyzed. In terms of tonnage, the same six lines moved no less than 50 per cent of total transshipped export volumes and no less than 60 per cent of total import traffic.

Three U.S. ports accounted for a significant proportion of Canada's trade transshipped through U.S. gateways -- Tacoma, New York and Seattle. In terms of TEUs, these ports handled over 80 per cent of Canadian import trade and over 70 per cent of Canadian export trade transshipped through the U.S. U.S. west coast ports alone handled three quarters of Canadian import TEUs and some 65 per cent of export TEUs. In terms of tonnage, Canada's exports transshipped were also handled mainly by U.S. west coast ports (close to 70 per cent), as were imports (50 per cent). U.S. Gulf ports accounted for 18 per cent of Canadian export tonnage transshipped through the U.S. in 1990 but only five per cent of imports.

Canada's trade transshipped through U.S. west coast gateways is mainly trade with Far East countries. On the east coast, Canadian trade routed through the U.S. is destined for all parts of the world, but primarily the Far East, South America, Europe, the Middle East and Africa.

Changes streamlining customs procedures constitute another upcoming development that has the potential for affecting relative competitive positions of ports on each side of the border. In the U.S., APL has been experimenting with paperless inbound movements of Asian cargo. This experiment includes shipments destined for Canada discharged at APL's U.S. west coast ports and moved inland by rail or truck. The customs system being tested enables freight to be electronically cleared by U.S. Customs for exit from the U.S. and entry into Canada at border crossing points. CN North America announced a pilot project to start in February of 1992 to help rail freight clear Canada Customs electronically at international gateways in Sarnia and Windsor. The EDI computer-to-computer information exchange between importers, customs and other carriers is the latest development in the global market place aimed at facilitating trade. This EDI development, once implemented, will mean reductions in transit times and storage needs.

TABLE 7.2
Rail Links with Chicago

City (Railway)	Hours	Miles
Montréal (CP Rail)	35	895
Halifax (CN)	95	1,650
New York (Conrail/CP)	40	980
Norfolk (N. Southern)	42 to 44	1,200

Chicago is the most important hub in North America's intermodal system. Shipping lines as well as railways on both sides of the border have developed strategies to improve their services to this major U.S. -- not to say North American -- distribution centre. CN's Sarnia-Port Huron tunnel project and Norfolk Southern stack-train service linking Norfolk International Terminals at the port of Virginia to Chicago are examples of such strategies. The new Sarnia-Port Huron tunnel, when completed, will allow CN to reduce its transit time by 12 hours between Chicago and Toronto. As well, Conrail has completed a clearance project on its Chicago-New York route, a project that should improve its double-stack service introduced five years ago. With this latter project completed, the competition between the port of Montréal and the port of New York could increase, given that the port of Montréal has been attracting a significant proportion of its traffic from the U.S. mid-west region for a number of years. The new upgraded and direct double-stack services of Norfolk Southern between Norfolk and Chicago have also reduced its transit time disadvantage compared with the CP Rail Montréal-Chicago service. It is evident that carriers' strategies aim at strengthening their intermodal positions in domestic, transborder and international markets. Canadian carriers' strategies integrate the haulage of import/export containers with transborder movements.

SAFETY

Highlights of 1991

Fatalities

In air, the number of reported fatalities involving Canadian registered commercial aircraft went up due to an accident in Saudi Arabia involving a DC-8 of Nationair. All train fatalities occurred at railway crossings. In marine, one more fatality than in 1990 was reported for a total of 22.

Accidents

The number of accidents in air increased. The number of train accidents increased because of a growth in terminal accidents. In Quebec and Ontario, the number of train accidents decreased. Shipping accidents and accidents aboard ships in Canadian waters dropped by nine per cent.

National Highway Safety Code

At year end, all National Highway Safety Code standards were implemented in Quebec, Ontario, Alberta and British Columbia. In all other jurisdictions, some standards were not yet enforced.

The National Transportation Policy, as stated in the *NTA, 1987*, has safety as one of its main policy objectives. The review mandate encompasses this policy. This section provides a brief overview of available safety-related information for transportation activities in 1991.

Air Services

Safety aspects of Canada's air transport industry are governed by the *Aeronautics Act*. Comprehensive amendments to this legislation, made in 1985, were designed to provide continuing high standards of airline safety. In addition, the *Canadian Transportation Accident Investigation and Safety Board Act* of 1989 established an independent multi-modal agency, the Transportation Safety Board of Canada, to investigate transportation occurrences and make safety recommendations.

1991 was the eighth consecutive fatal accident – free year for Air Canada and Canadian Airlines International Ltd.

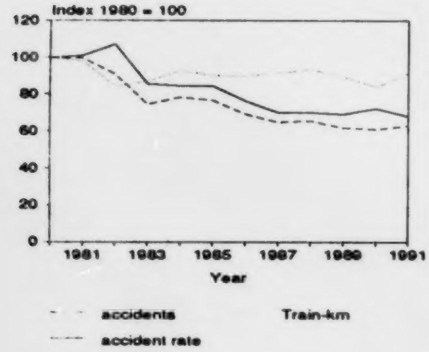
The Board's 1991 statistics indicate that accidents, fatal accidents and fatalities involving Canadian registered commercial aircraft increased in 1991 compared to 1990. The large increase in fatalities in 1991 is attributable to an accident in Saudi Arabia involving a Canadian operated DC-8 on contract to an African nation in which 261 lives were lost. However, 1991 was the eighth consecutive year in which there were no fatal accidents involving either Air Canada or Canadian Airlines International Ltd.

Canadian legislation requires the reporting of certain types of "incidents", i.e. occurrences other than accidents. There were approximately 700 such incidents reported in 1991.

Rail Services

Rail safety regulations in Canada are the responsibility of Transport Canada, while the Transportation Safety Board of Canada investigates rail transportation occurrences and makes safety recommendations.

FIGURE 8.1
Train Accident Rate
(Train Accidents per Train-Kilometre)



Preliminary data for 1991 was provided by the Transportation Safety Board of Canada. During this year there was a reclassification of safety statistics. Occurrences, which were previously recorded as incidents, are now categorized as accidents.

The total number of train accidents (collisions, derailments and crossing injuries) increased by 3.7 per cent. This increase was due primarily to a 9.5 per cent growth in terminal accidents. Main-track train accidents and crossing accidents remained relatively constant from 1990 to 1991. The number of train accidents increased in five of the seven regions, namely Atlantic Canada, Manitoba, Saskatchewan, Alberta and British Columbia. The total number of train accidents only increased by one in British Columbia from 1990 to 1991. Quebec and Ontario were the only two regions to report a drop in the number of train accidents.

The train accident rate was down in 1991.

The number of train-kilometres in 1991 is estimated to be slightly over nine per cent higher than in 1990. Despite an increase in total accidents, the number of accidents per million train-kilometres travelled decreased to 6.6 from 7.0 in 1990. The 1990 accident rate was revised upward due to the reclassification mentioned above. Over the period 1988 to 1991, the annual number of train related accidents decreased from 849 to 817 and the accident rate decreased from 6.8 to 6.6. Figure 8.1 illustrates an eleven-year trend in train accident rates showing train accidents by train-kilometres travelled. The number of train accidents declined from 1980 to

FIGURE 8.2
Train Fatalities by Region

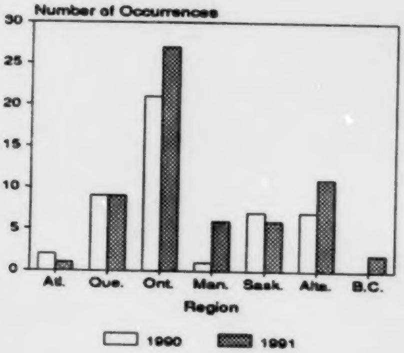
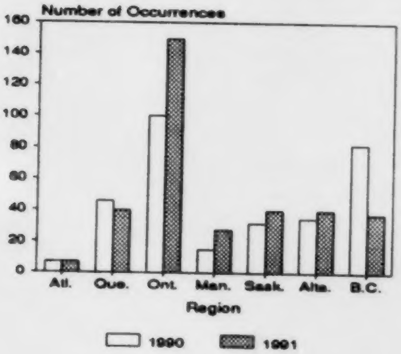


FIGURE 8.3
Train Injuries by Region



1990 and increased slightly in 1991. The accident rate however, declined in the early 1980's, remained relatively constant from 1987 to 1990 and decreased slightly in 1991.

In 1991, the number of fatalities resulting from train accidents was 62. This was higher than the 47 fatalities reported in 1990. As in the case of 1990, all 1991 train fatalities resulted from crossing accidents. Figure 8.2 shows the change in the number of train fatalities from 1990 to 1991, by region. Fatalities resulting from train accidents increased in Ontario, Manitoba, Alberta and British Columbia and declined in Atlantic Canada and Saskatchewan. The number of train related fatalities remained constant at nine from 1990 to 1991, in Quebec. The province of Ontario accounted for 44 per cent of total fatalities reported in 1991.

Train accident injuries in 1991 were also higher, up almost eight per cent over 1990. This increase was a result of 28 more injuries at grade crossings, combined with six main-track collision and derailment injuries. There were nine fewer terminal collision and derailment injuries in 1991, which slightly offset the overall increase. Train accident injuries by region, for 1990 and 1991 are depicted in Figure 8.3. The number of train related injuries increased over this period in Ontario, Manitoba, Saskatchewan and Alberta and remained constant at seven in Atlantic Canada. Ontario reported the highest number of injuries in the country, an increase of 49 per cent over last year. From 1990 to 1991, injuries declined 13 per cent in Quebec from 46 to 40, and 54 per cent in British Columbia from 82 to 38.

The Federal Railroad Administration, a U.S. based agency that sets safety standards and gathers data on all major American railways, gave its safest North American railway award to CN for safety performance in 1991. CN also won the U.S. National Safety Council's public safety activities award, given to railways having made exceptional efforts in safety. CN received these awards as the result of an internal safety campaign launched in 1990.

Trucking Services

The enactment of the *MVTA, 1987* changed the system of economic regulation but more emphasis was placed on safety performance. Inherent in the new legislation was a framework (known as the National Safety Code) for the implementation of uniform safety standards for commercial vehicles across Canada.

Under the *MVTA, 1987* the federal Minister of Transport is required to table a report on commercial vehicle safety each year during the period of transition (i.e. 1988-1991). These reports document the progress in the implementation of safety standards as well as assess trends in commercial vehicle accidents. To date two reports have been tabled, covering the years 1988 and 1989.

The national standards set out in the National Safety Code depend on the provinces and territories for implementation and enforcement. There has been considerable slippage in the implementation of standards among some jurisdictions and, for certain standards, disparities in implementation and enforcement. The accompanying chart summarizes the status of the implementation of the National Safety Code by province and territory at the end of 1991.

Of the sixteen standards, seven have been fully implemented as of the end of 1991; with the exception of the standard on "Suspension", all others were implemented in at least six jurisdictions. "Hours of service", the only standard subject to both federal and provincial regulations has proven to be the most controversial of the

National Safety Code Standards: Compliance at the End of 1991

Standard/Description	Jurisdictions Where in Place
Carrier/driver profile: Identification and safety record	all except NB, Man
Classified licence: Drivers licensed for type of equipment driven	all 12 jurisdictions
CVSA: Commercial Vehicle Safety Alliance, on-highway driver/vehicle inspection	all 12 jurisdictions
Examiner training: Standards for driver examiners	all 12 jurisdictions
Facility audit: Carrier record-keeping for inspection at terminal	all except PEI, NB, Man
First aid: standard course for drivers (excludes Sask and Qué)	all others
Compliance reviews: Applicant/carrier compliance with fitness criteria	standard deleted from NSC
Hours of service: Limitation of driving hours	all except Sask, NWT, Yukon
Knowledge test: For each class of driver licence	all 12 jurisdictions
Load security: Requirements for securing cargo	all except PEI, Sask
Medical standards: Minimum standards for drivers, periodic re-examination	all 12 jurisdictions
Self-certification: Carrier-run driver training (excludes Nfld, PEI, Yukon and NWT)	NS, NB*, Qué, Ont, Man, Sask, Alta, BC
Single licence: A driver may not hold more than one Canadian licence	all 12 jurisdictions
Suspension: Criteria for immediate 24-hour driving suspension (excludes Ont, NS and PEI) (Sask, Nfld - not yet decided)	NB, Qué*, Man, Alta, BC*, NWT
Vehicle maintenance: Minimum criteria for maintenance of vehicle components	all except PEI, NB
Trip inspection: Driver inspection of vehicle before and after use	Nfld, PEI, NS, Qué, Ont, Alta*, BC, NWT, Yukon*
Interprovincial record exchange (IRE): A computer link for exchanging driver/vehicle profile information. The IRE is not a NSC standard, but is a vital tool for safety enforcement, and is included in the NSC funding agreements.	all 12 jurisdictions

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* Denotes a standard partially in place.

standards. Compatibility of the hours of service regulations of intra-provincial operations (for which the provinces have sole responsibility) and extra-provincial operations (under federal responsibility) emerged as a contentious issue in several western provinces. By the end of 1991, however, hours of service regulations were being enforced across Canada for extra-provincial operations; intra-provincial regulations on hours of service were also in place in all jurisdictions except Saskatchewan.

For commercial highway vehicles the most current safety information available at this time (contained in the 1989 ministerial report on Commercial Vehicle Safety in Canada) is for the year 1988. Figures for the period 1986 to 1988 showed a steady increase in the involvement of straight trucks in fatal accidents (from 2.5 per cent to 3.5 per cent of all fatal accidents); the involvement of tractor-trailers in fatal accidents (5.8 per cent of total fatal accidents) remained virtually unchanged over the three-year period. The 1989 report on safety concluded that "the information available does not indicate any change that could be attributed to regulatory reform."

Marine Services

Marine accident statistics showed little change.

Shipping accidents and accidents aboard ships in Canadian waters dropped by nine per cent in 1991, according to Transportation Safety Board of Canada preliminary statistics. However, slight increases in marine accidents were reported in the western and central regions in 1991.

From 1987 through 1989, marine accidents as a whole increased; however, in the past two years, this trend appears to have reversed as accidents have declined. On a regional basis, the magnitude and direction of changes varied in each of the regions and displayed no consistent patterns over the period 1987 to 1991.

Fatalities, as a result of shipping accidents or accidents aboard ships, increased by one from 21 in 1990 to 22 in 1991. With the exception of 1989, when deaths due to marine accidents increased to 56 from 17 the previous year, fatalities have shown little absolute change from year to year over the past five years.

Despite a marine resupply related accident involving NTCL barges during a storm north of Fort Good Hope resulting in a spill of light oil into the Mackenzie River, marine accidents in the Arctic declined again (from 22 in 1990 to 17 in 1991) for the fourth consecutive year in the past five years.

It should be noted that neither the enactment of the *NTA, 1987* nor the *SCEA, 1987* have modified existing safety provisions set down in such statutes as the *Canada Shipping Act*, the *Arctic Waters Pollution Prevention Act* and the *Transportation of Dangerous Goods Act*.

EMPLOYMENT

Highlights of 1991

Level of Employment

In the four modes of transportation covered in this review, the average number of employees dropped by 8.4 per cent in 1991. Trucking and air services were the two sectors most severely affected by employment reduction.

Weekly Earnings

In the trucking sector, average weekly earnings were inferior in 1991 to their 1990 average level but also to the overall average for all sectors. In the rail, air and water transport sectors, increases in weekly earnings were above the rate of inflation.

Wage Settlements

In 1991, major wage settlements were reported mainly in trucking and marine-related activities. In trucking, some of the settlements signed contained a one-year freeze clause.

Strikes and Lockouts

In 1991, a little more than one per cent (1.3) of the person-days lost due to strikes or lockouts in Canada occurred in three of the four transport modes covered by this Review. Rail was exempted from strikes and lockouts in 1991.

Introduction

In the matters to be covered in the reviews, employment was clearly identified as one to be covered in both the Annual Reviews and the Comprehensive Review. This section of the report examines changes in the 1991 level of employment within the transportation industry, as well as some aspects of labour-management relations. This latter area is designated for specific coverage in the 1992 **Comprehensive Review**. Appendix F presents figures for the period 1978 to 1991, and is the basis for much of the analysis reported below.

In the transportation sector, carriers have had to introduce measures to restore their competitive position in the market place. Measures introduced targeted all important elements of carriers' cost structure, and labour was not exempted. Carriers have adjusted their operations and major carriers have delayered their administration. As a result of detailed cost/revenue analysis of their different services/accounts, carriers have not hesitated to adopt strategies emphasizing those which were profitable. In some cases, this has meant dropping some non-profitable services/accounts when it was felt that they could not be turned around.

In July 1988, at a meeting in Calgary of the National Advisory Committee to Transport Canada on training and licensing of aircraft and maintenance personnel, concerns were voiced by industry representatives of a future critical shortage of aircraft maintenance personnel. The Air Transport Association of Canada brought to the attention of Employment and Immigration Canada the need to study human resource management challenges facing the aircraft maintenance industry, an industry which has played a crucial role in the development and expansion of aviation in Canada. Employment and Immigration Canada formed a steering committee with several industry stakeholders. A study was undertaken and its report came out in March 1991; its findings are summarized on the next page.

Level of Employment

Total employment continued to decline within Canada in 1991; trucking was the mode of transportation most severely hit by employment reduction.

The slowing down of the Canadian economy and the trailing competitiveness of Canadian industries imposed, for a second year in a row, reductions in the country's total employment. On average, the reduction in the number of employees was close to 700,000 in comparison to the 1990 employment level - a 6.8 per cent drop in the average number of employed. For transportation, employment figures for the water transport sector showed a marginal average increase of approximately 500 jobs in 1991, while for the three other transport modes covered by the Agency's Review - air, rail, and trucking transportation - employment dropped in 1991. Trucking was the most severely hit sector with a 12.6 per cent reduction, a proportion comparable to the one observed in the manufacturing (12.4 per cent) and construction sectors (16.4 per cent). In air, the level of employment came down by 8.4 per cent while in rail, a 5.8 per cent reduction was observed.

From 1982 to 1989, the four modes covered by the Review accounted for 60 per cent of total transportation employment. In the following two years their share of transportation employment came down, reaching 55 per cent in 1991. Their share of total employment fluctuated over that same period between 3.2 per cent in 1984 and 2.6 per cent in 1991.

In rail services, employment levels continued to decline.

In rail services, the 5.8 per cent drop in 1991 in the employment level was in line with a trend which goes back many years. When rail employment is examined for the 1978 to 1991 period, the highest employment level over those years was noted in 1979. With the exception of 1984, when a marginal increase over the

A report on human resource issues in the Canadian aircraft maintenance industry came out in 1991.

" Human Resources in the Canadian Aircraft Maintenance Industry "

The aircraft maintenance industry expanded in the latter part of the eighties. This growth came from the economic deregulation of the air transportation industry, the general economic growth, the establishment of several new airlines and the expansion of the Canadian fleet.

The aircraft maintenance industry encounters a range of challenges and changes: rapid expansion of the airlines following airline deregulation; globalization of the airline industry; patterns of mergers and acquisitions of airlines in Canada and in other countries; increased use of individual aircraft; introduction of new aircraft technologies and the retrofitting of older aircraft; need to provide enhanced structural maintenance to the aging portion of the fleet both in Canada and around the world; pressure for increased formal training of aircraft maintenance workers; dwindling supply of young workers available to enter this industry.

The human resource challenges in aircraft maintenance can be summarized as follow:

- a shortage of skilled sheet metal and structure technicians;
- difficulty of retaining entry-level workers;
- rising minimum requirements for entry into all skilled trades in aircraft maintenance;
- few formal training programs for the non-licensed skilled trade persons, vital members of the aircraft maintenance teams;
- uncompetitiveness of compensation levels among smaller employers;
- recruitment and retention more of a problem among smaller carrier and repair and overhaul operations.

The study suggested action on four levels to address current human resource issues:

- defining occupational standards for the industry for the following occupations: sheet metal, composite and structures technicians; propulsion shop technicians; hydraulics and pneumatics shop technicians; interior refurbishers; aircraft machinists and non-destructive testing technicians;
- establishing training programs for other occupations, reflecting emerging trends in aircraft technologies;
- recruiting and retaining new entrants to the industry by widening the pool of potential entrants and by recognizing the scarcity of technically competent workers;
- developing on-going mechanisms for industry-wide human resource planning with the employers taking the lead role.

employment level of the previous year was reported, the average number of employees in this mode has been declining over that period since 1979. In fact, the average number of rail employees was 47 per cent lower in 1991 than in 1979. Between 1979 and 1991, the reduction in the average number of employees was 26 per cent in manufacturing, 40 per cent in forestry and 12 per cent in mining. In 1991, rail employment was 21 per cent less than in 1987, the year that preceded the coming into force of the new transportation legislation. In manufacturing, the employment decline over that same period was 17 per cent, 12 per cent in forestry and four per cent in the mining sector.

Manitoba's trucking industry was the only one retaining its 1990 employment level.

For trucking, Alberta, British Columbia, and Nova Scotia reported a significant increase in the number of trucking business bankruptcies and also faced more significant decreases in trucking employment. After substantial employment gains in 1990, Alberta's trucking industry hit a record low level of employment in 1991. Despite a drop in 1991 in the number of trucking bankruptcies, Quebec had a second year of significant reduction in employment level. This indicates that trucking firms based in this province were adopting drastic measures to restore their situation. Manitoba is the only province which, basically, was able to maintain in 1991 the same average number of employees in trucking as in 1990.

For the water transport sector, the previously reported increase in employment levels came from Nova Scotia, Ontario, and British Columbia.

In air, the most significant employment reductions were reported in Quebec and Alberta.

The reduction in air transport employment came from all regions of the country; none was exempted. The most significant reductions, in absolute terms, came from Quebec and Alberta where the two main carriers of the country are based. The two carriers underwent stringent cost cutting programs to face the major downturn in the demand for their services.

Total transportation employment decreased in 1991 in all provinces but Prince Edward Island. Newfoundland, New Brunswick, Quebec, Saskatchewan and Alberta faced reduction greater than the national average.

In 1991, the reported reduction in the overall employment level for the transportation sector came mainly (72 per cent) from transport activities covered by this Review.

Wage Settlements and Earnings

For all sectors of the economy, on average, weekly earnings were 5.5 per cent higher in 1991 than in 1990. In the transportation sector, weekly earnings increased by 5.9 per cent, more than the national average for all sectors; a similar situation was observed in 1988.

Weekly earnings increased more than inflation in air and rail transport services.

Within the four modes of transportation covered by the review, changes in the weekly earnings ranged from -1.7 per cent in trucking to 9.1 per cent in water transportation, with increases of 6.4 per cent for rail transportation and six per cent for air transport services.

Over the period 1978 to 1991, changes in average weekly earnings reported for each of the four modes differed from one year to another. As a result, a modal comparison of weekly earnings shows that trucking always had, in absolute terms, the lowest average weekly earnings of the four modes during that period. With the changes in recent years, the 1991 average weekly earnings in trucking became inferior to the overall average for all sectors of activities. Given that truck drivers constitute an important element of the work force within the trucking industry, the enforcement of the new hours of service rule could explain in part this reduction in average earnings. Other explanations would be the intense competition level prevailing in the industry, a situation exacerbated by the recession.

From 1978 to 1983, the air sector had, in absolute terms, the highest average weekly earnings of the four modes covered in the review. From 1984 onward, its weekly earnings became, on average, lower than the ones in rail and water transportation. Water transportation earnings were the highest of the four modes in 1984 and 1985. Since 1986, it is the rail sector which has had the highest average weekly earnings of the four modes.

Over the period 1978 to 1991, average weekly earnings within all sectors increased by 121 per cent. An increase of 126 per cent was noted in the Consumer Price Index (CPI) over the same period. During these years, average weekly earnings increased by 173 per cent in rail, 139 per cent in water transportation, 112 per cent in air and 90 per cent in trucking. In rail and water transportation, the increases in weekly earnings between 1978 and 1991 have more than covered the overall increases in consumer prices.

In trucking, average weekly earnings have been growing at a slower pace than inflation.

Between 1988 and 1991, the increase in the CPI was 16.2 per cent. Average weekly earnings for all sectors increased by 16.6 per cent during those four years; this is to be compared to figures of 20.6 per cent in water transportation, 18.9 per cent in rail, 16.8 per cent in air and 2.9 per cent in trucking. In three of the four modes covered by the review, increases in average weekly earnings - since the enactment of the transportation legislation in 1988 - were more than sufficient to cover inflation. Since 1988, the trucking sector is the only one which has had to face both a reduction in its average number of employees and a decrease in real terms in its average weekly earnings. Comparing changes in average weekly earnings of all sectors to the ones reported in trucking, between 1978 and 1987, the increases in trucking earnings were 2.1 times inferior to the ones in the overall average for all sectors; between 1988 and 1991, trucking earning increases were less than one fifth of the reported changes in the national average weekly earnings. Before and after 1988, increases in weekly earnings within the air sector tracked the overall increases in national average earnings; for water and rail transport sectors, the increases have always been superior to the average increase in all the sectors of the economy.

A comparison of regional weekly earning increases within transportation industries in 1991 with the overall national average increases in earnings shows that in British Columbia (8.4 per cent), New Brunswick (8.1 per cent), Newfoundland (8.0 per cent), Alberta (6.5 per cent) and Ontario (5.7 per cent), increases exceeded the 5.5 per cent national average for all industries. Average increases in 1991 in weekly earnings of transportation employees in Quebec (5.1 per cent), Saskatchewan (5.0 per cent), Manitoba (1.1 per cent), Prince Edward Island (0.8 per cent) and Nova Scotia (-3.1 per cent) were lower than the 5.9 per cent national average increase for transportation.

Some key wage settlements in trucking and marine-related services were signed in 1991.

A number of key wage settlement contracts affecting more than 500 employees were signed in 1991. The most significant of these were:

- Association des cammionneurs du Québec (a 1990 agreement not reported in the 1990 Annual Review) - drivers
- Purolator messenger services - drivers, maintenance and storage employees
- Groupe Transport Cabano - drivers, helpers and employees looking after storage

- United Parcel Service Canada Ltd. - teamsters, drivers, maintenance, helpers and storage employees
- Highland Transport (Division of Canadian Pacific Express and Transport Ltd) - dependent owner-operators
- British Columbia Maritime Employers Association
- British Columbia Terminal Elevator Operators' Association - grain elevators employees

The latter wage settlement contract and that of United Parcel Service Canada Ltd. are the only two which were reached after a strike. In two of the reported settlements involving trucking firms, parties had agreed to a one year salary freeze.

Rail employment security translates into end-of-the-year write downs.

When CP Limited announced its 1991 financial results, huge write downs were said to have contributed to the firm's worst year. One of the write downs was a sum of $250.9 million associated with CP Rail cutting maintenance and administrative jobs and closing the Angus Shops rail yard in Montréal. In 1990, a significant portion of CN's reported loss had to do with the cash-out paid to laid off employees following the company's decision to downsize its labour force. Back in the mid-1980s, railways negotiated with their employees what is known as an "Employment Security and Income Maintenance Agreement", giving employees "preferred job security". Such job security is obtained by VIA Rail, CN and CP Rail employees after eight years of "cumulative compensated service". A rail employee who has employment security will not be subjected to layoff as the result of any technological, operational or organizational change of a permanent nature having adverse effects on employees. In case(s) of permanent staff reductions, special offers of optional early retirement separation allowances to eligible employees are possible, usually in the form of a lump sum payment calculated on the basis of a formula. Staff reduction and early retirement within Air Canada and PWA Corporation (Canadi*n) translated into charges of $36 million and $22 million respectively in the financial results reported at year end by the two companies. Separation allowances, whenever used in any given year, translate into write downs which can translate a profit into a loss at the end of a year.

TABLE 9.1
Percentage Increase in Consumer Prices and Wage Settlements

		Wage Settlement Increase	
	Consumer Price Index	Transportation and Communication	All Industries
1986	4.2%	3.3%	3.5%
1987	4.4%	3.1%	4.1%
1988	4.0%	3.6%	4.3%
1989	5.0%	4.5%	5.3%
1990	4.8%	5.7%	5.7%
1991	5.6%	3.7%	3.6%

In 1992, a number of important settlements in transportation are up for renegotiation. They involve the following firms/groups:

- Canadian Pacific Ltd. (CP Rail), CN, VIA Rail;
- Motorways (1980) Ltd.;
- Marine Atlantic Inc., St. Lawrence Seaway Administration, Waterfront Foremen Employers Association.

In the 1990 Annual Review, we reported that both CN and CP Rail appeared before the Canada Labour Relations Board to ask for consolidation of unions representing diverse employee groups in their operations. The Board, after 17 months of hearing, had not rendered a decision by the end of 1991 on the request. The Board and the Unions indicated that a statement made by the Labour Minister during an interview with a Montreal radio station to the effect that the federal cabinet can influence the Board's decisions could have damaged the Board's reputation for independence. The year 1992 is an important one for the rail industry as numerous labour contracts are up for renegotiation.

In 1991, Canada Labour Relations Board's transportation caseload was up.

In previous reviews, the Agency indicated that some Canadian-based trucking firms had established operations south of the border or had acquired a U.S. based carrier or simply moved their operations to the U.S. In relation to such situations, the Canada Labour Relations Board in 1991 rendered a decision on an application dealing with one of the said three scenarios. Servall Transport Limited - an intra-provincial, inter-provincial and international general freight truckload firm, part of the Transport Group of Federal Industries and using owner-operators on both sides of the border - in 1990 sought relief from the unions because of its deteriorating financial position. The Teamsters refused to give any concessions. In the fall of 1990, Servall Transport created an operation in the U.S. - Servall America Inc. - to stop losing accounts to American based trucking firms with lower costs due to less empty haul on their return trip. The Teamsters filed an application to the Board, alleging that this was done to avoid collective agreement obligations. The Teamsters also alleged that a sale of business had taken place and therefore that successor bargaining rights applied to Servall America Ltd. In its decision, the Board found that the American owner-operators hauling loads into and out of Canada for Servall America Inc. were not under the Board's jurisdiction as it is not an employer within the meaning of the Canada Labour Code. The Board also stated in its decision that the creation of Servall America was a legitimate cost-cutting measure.

Since the implementation of regulatory reform in the transportation industry, the transport-related case load of the Canada Labour Relations Board has not changed significantly from previous years in terms of type of cases submitted.

TABLE 9.2
Nature of Transport-Related Caseload of the Canada Labour Relations Board

	1987-88	1988-89	1989-90	1990-91
	Certification applications by trade unions to obtain exclusive right to represent employees of an employer			
Air Transportation	20	10	33	25
Rail Transportation	0	2	0	1
Road Transportation	64	73	65	90
Shipping & Navigation	7	17	12	12
	Applications for revocation of a union's bargaining rights			
Air Transportation	5	1	4	3
Rail Transportation	0	0	0	0
Road Transportation	5	8	6	12
Shipping & Navigation	2	0	2	0
	Number of allegations filed of rights or obligations not respected by parties involved in collective bargaining			
Air Transportation	42	34	41	35
Rail Transportation	37	33	42	39
Road Transportation	65	170	70	98
Shipping & Navigation	14	9	10	9
	Unlawful strikes or lockouts applications			
Air Transportation	3	3	2	1
Rail Transportation	5	0	4	0
Road Transportation	7	2	6	3
Shipping & Navigation	1	1	1	1
	Sale of business - collective bargaining rights and obligations of acquired business			
Air Transportation	7	4	7	3
Rail Transportation	0	0	1	0
Road Transportation	16	11	22	15
Shipping & Navigation	8	2	3	5

TABLE 9.3
Percentage of the Canada Labour Relations Board's Caseload coming from the Transport Industry

	1987-88 (%)	1988-89 (%)	1989-90 (%)	1990-91 (%)
Air Transportation	15.0	8.1	6.0	9.9
Rail Transportation	7.1	7.3	3.5	6.7
Road Transportation	27.0	37.1	11.4	24.0
Shipping & Navigation	5.6	5.9	1.7	4.0
Other	45.3	41.6	77.4	55.4
Total	100.0	100.0	100.0	100.0

Strikes and Lockouts

Transport strikes and lockouts came down again in 1991.

The number of strikes and lockouts reported in 1991 as well as the number of workers involved declined for all transportation modes, with the exception of air transportation. The 1991 strikes resulted in fewer person-days lost than in 1990 in all modes but air; there, the increase was due to the fact that workers of two carriers were on strike and lockout status. There were, however, two other strikes of importance to the transportation sector: Lakehead Terminal Elevators Association in Thunder Bay and B.C. Terminal Elevator Operators' Association in Vancouver. Both had an impact on traffic volume transshipped at the two respective ports, by the same token affecting carriers serving the two ports.

The Agency has covered the period 1978 to 1991 in its analysis of the strike and lockout situation, the last four years being the period of enforcement of economic regulatory reform for transportation services. The length of the period considered allows us to determine any shift in trend that could have resulted from the enforcement of the new regulatory regime.

In the air transportation sector, economic regulatory controls were first eased substantially in May 1984 by the New Canadian Air Policy. The following year, as well as the year that preceded the enactment of the *NTA, 1987*, had significantly more air transportation workers involved in and persons-days lost because of strikes and lockouts than any of the other years in the 1978 to 1991 period. In the case of rail transportation, a national rail system strike occurred in 1987, the year prior to the implementation of the reform. While the conflict did not last very long, it nevertheless paralysed the country's rail transport services.

Transportation Strikes and Lockouts in 1991

Air Transport
Nationair Nolisair Inc., Mirabel, Québec
Air Ontario Inc., London, Ontario

Rail Transport
(None)

Trucking
Rousille Transport 1984 Inc., Montréal, Québec
J.R. Phillips Trucking Ltd., Maidstone, Ontario
Kleysen Transport Ltd., Esterhazy, Sask.
Imex Import Export Cartage, Vancouver, B.C.
United Parcel Service Canada Ltd., various locations within Canada

Water Transport
Northern Cruisers Ltd., St. John's, Newfoundland (started in July 1990)
Compagnie minière IOC, Sept-Îles, Québec
Maritime Employers Assn., Trois-Rivières, Québec
Société du port de Montréal, Montréal, Québec (started in April 1990)
B.C. Ferry Corporation, Comox, B.C.

Storage
Légumes préparés M. Lapointe Inc., Fording River, Québec
Lakehead Terminal Elevators Association, Thunder Bay, Ontario
B.C. Terminal Elevator Operators' Ass., Vancouver, B.C.

For trucking and water transportation, strikes and lockouts have continued to follow unpredictable patterns, even since 1988. However, the 1990 blockades by owner-operators of interprovincial and border crossing points were clearly an indication of a malaise in the trucking industry. The malaise was associated with the overall economic situation prevailing then but owner-operators also tied it to the liberalized entry into the industry. The 1991 employment and earnings figures showed that the situation within the trucking industry has deteriorated. Some ports faced labour conflicts in 1991.

Peaceable management-labour relations are observed within transportation.

Since the coming into force of the new transportation legislation, management-labour relations have been, in general, unhostile in the transportation sectors. Such relatively peaceful relations are not so much the result of the new regulatory environment but of the competitive pressures and competitiveness challenges facing transportation as well as the economy in general. These pressures and challenges have been recognized by both employees and employers. Since the late 1980s, the economic environment, overall, has awakened survival instincts and has been more conducive to peaceable partnership relations between management and labour than adversarial ones. Such a market environment requires ongoing adjustments and productivity improvements to meet the changing demands and expectations of transportation users. It also determines the nature of management-labour relations required to prevail.

THE AGENCY'S FOURTH YEAR

Highlights of 1991

Licensing

The majority of air licence applications for operations in southern Canada are processed within 30 days; in the case of applications for authority to operate to, from, or within the designated area, the majority are processed within 90 days. Over three thousand applications for charter permits were received in 1991.

Dispute Resolution

Complaints regarding air transportation were down in 1991. On the rail side, the workload comprised an interswitching regulations inquiry, running rights applications, common carrier complaints, a request for the establishment of a competitive line rate, and public interest passenger-related matters. Of importance was the request to interpret the Terms of Union clause with respect to Newfoundland freight rates. In the Athabasca system, a complaint alleging a predatory pricing behaviour was handled.

Rail Rationalization

The 1991 rail rationalization workload was split between new applications and reconsideration of previous decisions.

Review and Appeal

The rail mode dominated the caseload of applications for review and appeal.

One of the matters designated for coverage in the Review is "the time required to deal with any application, complaint or other matter referred to the Agency under any Act of Parliament". This section of the Review is the Agency's 1991 "report card", particularly on how its workload was handled from a time perspective. Where appropriate, a short overview of the Agency's caseload since 1988 is presented. The information is presented according to the Agency's three main line functions: licensing, dispute resolution processes, and rail rationalization. Applications for review are also examined.

Licensing Matters

Air Licence Applications

In 1991, the Agency received 61 applications for authority to operate new or amended **air services in southern Canada** and 24 applications were carried over from 1990. One application was withdrawn by the applicant and five were returned. Of the 60 applications processed in 1991, 44 were completed within 30 days, five were completed between 31 and 60 days, and 11 took more than 60 days. Of the 93 requests to suspend or cancel licences authorizing services in southern Canada that were completed in 1991, 79 were completed within 30 days, 12 between 31 and 90 days, one between 91 and 120 days, and one took more than the 120 day limit to complete.

Domestic air licence applications in 1991 were again predominantly for authority to operate in the north.

The Agency received 303 applications for authority to operate new or amended domestic **air services to, from or within the designated northern area** and 86 applications were carried over from 1990. Twenty-three applications were withdrawn by applicants and four were returned. These applications require public notice. Interested parties are given an opportunity to object to the proposed service and applicants have the opportunity to respond to these objections, a process normally requiring 45 days. Of the 222 applications dealt with in 1991, 147 were dealt with in less than 90 days, 51 between 91 and 120 days, and 24 took more than the 120 day time limit specified in the legislation. Applications that took more than 120 days to process either involved extraordinary pleadings or were cases where the applicant had to re-advertise.

Two hundred and eleven **requests to suspend or cancel licences** or parts of licences, authorizing services to, from or within the designated territory were processed in 1991. Over eighty per cent (172) were processed within 30 days, 27 between 31 and 60 days, five between 61 and 90 days, and five between 91 and 120 days. The two remaining applications took more than the 120 day limit. Five requests for temporary authority, waivers and exemptions were processed in under 30 days.

Twenty-six requests to suspend or cancel licences or parts of licences authorizing services to, from, or within the designated territory and within southern Canada were processed in 1991. Eighteen of the requests were processed within 30 days and eight between 31 and 60 days.

The processing of another 140 applications and requests relating to domestic air services was still in progress at the end of the year.

Sixty-three applications for authority to operate **international scheduled services** were received in 1991 and five were carried over from 1990. No statutory time limits are imposed on the Agency for processing these applications. Of the 57 applications completed in 1991, 38 were processed within 30 days, 10 took between 31 and 60 days, eight between 61 and 120 days, and one application took more than 120 days to complete.

The Agency's international air services licensing workload involved primarily non-scheduled service applications.

In 1991, 139 applications for authority to operate **international non-scheduled services** were received and 38 were carried over from 1990. Of these, 34 applications required public notice -- a 45-day process. Of the 115 applications processed in 1991, 69 were processed in less than 30 days, 36 took between 31 and 90 days, and seven took between 91 and 120 days. The remaining three applications were processed after the 120-day time limit specified in the legislation.

Eight requests for either temporary authority or an exemption to operate without an international licence were processed in 1991. Two requests were handled in less than 30 days, four in 31 to 90 days, and two took over 90 days. Of the 95 requests to suspend or cancel licences authorizing international services, 81 were completed within 30 days, seven between 31 and 60 days, three between 61 and 90 days, three between 91 and 120 days, and one took more than 120 days to complete.

The processing of an additional 83 applications and requests relating to international air services was in progress at the end of the year.

Air Charter Permit Applications

A total of 3,230 applications for charter program permits were received.

The Agency received 3,230 applications for permits to operate specific charter programs. Regulations specify different advance filing requirements for each type of charter. The time within which the Agency must process these applications varies depending on the type of charter involved. In all cases, these applications were processed prior to the departure date of the proposed flights. Of the 3,230 applications, 504 were accompanied by requests for exemptions. These requests were considered at the same time as the applications.

Rail Licence Applications

The application submitted to the Agency in 1990 by M.O.Q. Rail Inc. to serve six corridors and to operate under running rights/joint track usage on CN tracks from Moncton to Windsor was withdrawn at the end of 1991.

Northern Marine Resupply Licence Applications

Agency denies licence application; applicant requests review of Agency decision.

John Inglis, operating as Lake Athabasca Transport (LAT), applied to the Agency for the second time in three years for a licence to provide a marine resupply service in the Lake Athabasca system. The Agency denied the application on the grounds that the licensing of an additional carrier would result in excess licensed capacity in the system, a situation that could result in significant instability in the provision of resupply services in the system. LAT formally asked the Agency to review its decision. As of the end of 1991, the Agency had not yet ruled on the carrier's request. No other northern marine resupply licence applications were submitted in either the Athabasca or Mackenzie systems in 1991, and there were no requests from licensed carriers for amendments to their licences in the form of extensions to their areas of operations or increases to their carrying capacity. The year did, however, see the Agency issue an amended licence to MacDonald Marine Transport Ltd. due to a change in the carrier's name.

With the exception of the "grandfathering" of northern marine resupply carriers operating prior to the enactment of Part V of the *NTA, 1987*, there have been no applications for additional resupply licences in the Mackenzie system and only two, from the same carrier, in the Athabasca between 1988 and 1991. In 1989, the

Agency issued a one-year resupply licence to LAT but denied it an indefinite licence in 1991. The Athabasca system also saw the first transfer of a resupply licence in 1990 when Lake Athabasca Transport Ltd. purchased Cree Band Marine, thereby acquiring its licence.

Dispute Resolution

Complaints and Investigations - Air

Almost 75 per cent of the air complaints received in 1991 concerned international air services.

During 1991, the Agency received and processed 149 written complaints, of varying complexity, concerning air passenger transportation. Approximately 25 per cent of these complaints were related to domestic services, while the remainder pertained to international air services. In addition to the above written complaints, the Agency received over 500 oral complaints during 1991.

It took an average of 58 days to handle each of the 149 complaints. This is an increase of 26 days over the average processing time in 1989 and 1990 but only one day more than the average processing time for 1988. The increase in processing time during 1991 is attributable to seven applications that took more than six months to process, including four that took more than a year. Five of the complaints involved carriers that were about to be petitioned into bankruptcy and, hence, were not prepared or able to settle the complaints expeditiously.

Over the 1988 to 1990 period, the number of consumer complaints grew steadily, reflecting the increasing volume of passengers using air services, but then fell sharply in 1991, reflecting the downturn in demand for air transportation services brought on by the Gulf war and the economic recession.

There are no trends evident in the types of complaints filed with the Agency during the last four years. Complaints about flight cancellations or delays, lost or damaged baggage, and charter air carriers continue to be the top three categories of issues dealt with.

Only a few complaints each year result in Agency orders or decisions directing air carriers to abide by the terms and conditions of carriage contained in their tariffs.

The many complaints received in 1988 and 1989 regarding charter air carriers indicated that the travelling public did not have a good understanding of the differences between charter air services and regular scheduled air services, and that many lacked knowledge of many aspects of international air travel. As a result, the Agency released an information brochure entitled "FLY SMART" in 1991 which provides basic information on air travel and advice on what to do when problems arise.

Complaints and Investigations - Rail

An inquiry into interswitching regulations was carried out.

In 1991, activity relating to interswitching focused on the development of the interswitching rates to be charged in 1992. The Agency also initiated a staff inquiry into the current *Interswitching Regulations*. This inquiry was undertaken in response to the statutory requirement that the Agency review the regulations within five years of their implementation. In December 1991, the Governor-in-Council ruled on an appeal filed by the Essex Terminal Railway, in respect of a 1988 Agency order. The Agency had denied the carrier's request for an exemption from the application of the regulations. The Agency ordered the carrier to publish an interswitching tariff and to adhere to the regulations. The Governor-in-Council rescinded the Agency order and varied the regulations to provide for exemptions for carriers earning in excess of 90 per cent of their freight revenues from interswitching. One other appeal of a 1988 interswitching decision remains in the Federal Court. In 1988, the Agency received 10 applications for extended interswitching and in 1989 the Agency received five. Since 1989, there have been no new applications for interswitching.

Three running rights applications were considered in 1991.

Three applications under the running rights/joint track usage provision of the legislation were considered by the Agency in 1991. All three applications were carried over from 1990. Two of the applications concerned running rights for provincially incorporated railways. Ontario Midwestern Railway and Victoria County Railway were interested in obtaining running rights, primarily over CN trackage, in Ontario. In May 1991, the Agency denied both applications, finding that the provisions in the *NTA, 1987* were restricted to railway companies subject to federal jurisdiction. The third application involved a request by M.O.Q. Rail Inc. for authority to operate on CN tracks between Moncton, New Brunswick and Windsor, Ontario. M.O.Q. Rail proposed to operate trains consisting of a number of strings of modified trailers, mounted on bogies. The application was withdrawn in December 1991, following successful negotiation of an agreement between the parties. Running rights/joint track applications were received in each of the years 1988, 1989 and 1990. No new applications were received in 1991. However, the three applications carried over from 1990 were all resolved during the year.

In a related matter, an appeal of a 1990 Agency ruling, which granted a connection to CN trackage for the Port Stanley Terminal Railway, remains before the Federal Court.

Two common carrier obligation complaints were denied.

Two common carrier obligation complaints were considered by the Agency during the year. Both decisions were issued within the 120-day statutory time limit. An application filed by a passenger was denied in May, as the Agency found no evidence to suggest that service delays were in any way attributable to negligence on the part of VIA Rail. The other complaint was filed by a grain producer who alleged that the closure of a loading siding constituted a breach of CN's obligations to provide adequate accommodation for traffic. The application was denied as the Agency found CN to be acting in the ordinary course of business. In addition, the appeal of a 1988 decision remained before the Federal Court at year end. Common carrier obligation complaints were received in each of the years 1988-1991. All decisions were completed within the 120-day statutory time limit.

A competitive line rate was established for Alberta Gas Chemicals Inc.

In 1991, one application for the establishment of a competitive line rate was received and processed within the 45-day statutory time limit. The Agency established a competitive line rate for Alberta Gas Chemicals Inc. for the shipment of methanol from Medicine Hat to Coutts, Alberta, for further shipment to Shelby, Montana. This rate is a further extension of the rate originally established by the Agency in 1988. An appeal to the Federal Court of a 1989 decision was withdrawn by CP Rail in 1991. In 1988 and 1989, the Agency handled two applications for the establishment of competitive line rates. In 1990 and 1991, the Agency established competitive line rates for Alberta Gas Chemicals Inc. These rates were extensions of the rate originally established in 1988. All applications handled during this four year period were completed within the 45-day statutory time limit.

In May 1991, the Agency was directed by the Governor-in-Council to determine whether rates assessed Gainers Inc. by CP Rail were compensatory for movements of suspended meats during the period 1980-1983. This matter remained before the Agency at the end of the year. In each of the years 1988 and 1989, the Agency considered two applications alleging non-compensatory rates. The applications were completed within the statutory limit of 90 days. In 1990, no new applications were received; however, the Agency handled one application carried over from 1989. The Agency did not rule within the 90-day statutory deadline, as it was determined that a public hearing was necessary. In 1991, no new applications were received; however, the Agency received a directive from the Governor-in-Council with regard to non-compensatory rates.

The Agency was asked to interpret the Terms of Union between Canada and Newfoundland with respect to CN freight rates to Newfoundland.

In May 1991, the Agency interpreted the Terms of Union between Canada and Newfoundland in response to a complaint by Atlantic Container Express Inc. alleging that certain CN rates to Newfoundland were not in accordance with the Terms of Union between Newfoundland and Canada. An appeal of the Agency's interpretation of the Terms of Union remained before the Federal Court of Appeal at year end. A further decision applying the Agency-determined rate methodology in respect of the Atlantic Container Express complaint was also pending at the end of the year.

Two public interest passenger-related matters considered by the Agency in 1991.

With regard to passenger-related matters, the Agency decided on one appeal regarding passenger fares, carried over from 1990, that had been filed pursuant to section 290 of the *Railway Act*. In respect of the appeal filed by Transport 2000 with regard to increases in the VIA base fare and charges for sleeping car accommodation west of Montreal, the Agency found that the subject fares were not prejudicial to the public interest. A similar appeal was filed with respect to the Canrailpass, a pass which is available on specified terms to non-Canadian residents only. This appeal was under review at year end. Numerous referrals regarding service-related matters were also addressed during the year.

In August 1991, regulations developed by the Agency with respect to railway traffic liability were approved by the Governor-in-Council. The *Railway Traffic Liability Regulations* replace Canadian Transport Commission General Order T-5 and are to apply only in situations where there is no written agreement or Agency order restricting carrier liability. In November 1991, the Agency also rescinded an Agency order respecting railway liability on movements of import/export containers. The Agency also found that the new *Railway Traffic Liability Regulations* would apply on the subject traffic, in the absence of an agreement between a shipper and a carrier limiting liability.

Complaints and Investigations - Marine

In relation to resupply services on the Athabasca system, a predatory pricing complaint was received.

In 1991, MacDonald Marine Transport Ltd. (MMTL) complained to the Agency that A. Frame Contracting Ltd. (Frame), the other licensed marine resupply carrier, violated subsection 218(3) of the *NTA, 1987* when it quoted rates to Athabasca shippers lower than those published in its tariff filed with the Agency. As a result of Frame's admission that this was indeed the case, the Agency ordered it to cease and desist this rate practice and disallowed Rule 27 of Tariff AFCL No. 101, which gave the carrier the right to charge rates other than those set out in its tariff, as being in contravention of Part V of the *NTA, 1987*.

In the four years since the enactment of the legislation, this is the only northern marine resupply complaint dealt with by the Agency.

No SCEA related complaints in 1991.

Regarding Canadian international liner shipping, no complaints were received or investigations undertaken by the Agency in 1991 under either section 13 of the *SCEA, 1987*, or section 59 of the *NTA, 1987*.

In the four years since transportation legislative reform in 1988, the Agency has received only two formal complaints concerning the operations of shipping conferences serving Canada. In the case of the Ostroff complaint, originally filed with the Canadian Transport Commission, the Agency ruled in 1988 that the shipper had failed to establish a case against the Asia-North America Eastbound Rate Agreement (ANERA) regarding the validity of specific terminal charges imposed by the conference. The Canadian Meat Importers Council also filed a formal complaint with the Agency under section 59 of the *NTA, 1987* in October 1988, regarding the imposition of a protective service charge on meat imports handled by the Australian Eastern Canada Shipping Conference (ECANZ). The Agency's investigation, which carried over into 1989, concluded that the imposition of such a charge did not represent a double recovery of freight costs and was therefore not prejudicial to the public interest.

Mediation and Arbitration - Air

The Agency was not requested to mediate or arbitrate any matters relating to air transportation in 1991 and has not been requested to do so since the dispute resolution provisions came into effect on January 1, 1988.

Mediation and Arbitration - Rail

No requests for final offer arbitration of rail disputes were received in 1991.

The Agency received no formal arbitration requests in 1991. An appeal of a 1990 Agency determination regarding the Parrish and Heimbecker/CN arbitration case, was dismissed by the Federal Court. A further appeal of the actual arbitrator's decision remained before the Court at the end of the year.

In 1988, 25 requests were received for assistance in rail disputes. This number increased to 43 in 1989. The *NTA, 1987* specifies a 30-day time limit to resolve an application, and in the majority of cases the Agency responded within these limits. In instances where the 30-day period was exceeded, it was either at the request of the parties to the dispute or with their consent and agreement to further explore alternatives which would lead to resolution of the conflict. The first request for final offer arbitration was received in 1989, but was later withdrawn when the parties reached a negotiated settlement. There were two requests for final offer arbitration in 1990. One request was refused and one was referred to an arbitrator. The decision was rendered within the 90-day statutory limit. CN filed motions with the Federal Court for leave to appeal both the Agency's and the arbitrator's decision. No arbitration requests were received in 1991.

Mediation and Arbitration - Marine

Shippers have approached the Agency twice since 1988 seeking assistance in resolving disputes through mediation, the first one in 1988 regarding proposed increases in ECANZ terminal charges and, more recently, regarding the continuing need for a container usage charge imposed by the Eastern Canada Caribbean Rate Association in the context of trade with the Dominican Republic. In both cases, the Agency's attempts to mediate the disputes failed; the carriers refused to meet with the Agency and the shippers.

Infrastructure - Rail

A total of 214 applications related to rail infrastructure matters were submitted to the Agency in 1991.

The Agency's 1991 rail infrastructure workload consisted of 421 applications, including those carried over from the previous year. A total of 214 new applications were received in 1991. Of these applications, 222 orders were issued, 87 were completed to the satisfaction of the parties and the remainder were before the Agency at year end. During the year, 201 complaints and inquiries concerning infrastructure matters were also received, in addition to 12 carried over from 1990. Of these, 181 were resolved and 32 were carried forward to 1992.

The time required to issue orders varies with the complexity of the case, the extent of any dispute between the parties and the response time of those parties to Agency requests for information. In 1991, the Agency had to deal with matters of long-standing dispute and other complex cases carried over from 1990. The average response time was nine days for ministerial correspondence, 45 days for complaints and inquiries and 206 days for applications.

The new guidelines on cost apportionment decisions for grade separation structures, which were put into place in 1990, were used extensively in 1991. These guidelines were used not only by the Agency, but also by railways and road authorities to assist in negotiations between parties, prior to applications to the Agency.

A program of review of all relevant engineering regulations under Agency jurisdiction was initiated.

A program of review of all relevant engineering regulations under the jurisdiction of the Agency was initiated in 1991. This program included the revocation of regulations that are no longer in effect or that have no relevance under existing legislation and policy, amendments of regulations that have not kept pace with the revised legislation and, where possible, the replacement of regulations and guidelines to allow the Agency and the industry more flexibility to manage rail infrastructure projects. All proposed changes have been or will be circulated to railways, road authorities, federal and provincial government departments, municipalities, engineering firms and individuals to ensure that all aspects have been considered by the Agency prior to any changes.

The environmental assessment procedures, which were developed last year, were utilized in 1991. These procedures ensure that applicants or proponents and the Agency consider the environmental effects of any rail infrastructure work requiring approval of the Agency.

In addition, a brochure is being prepared to inform the industry of the Agency's role in rail infrastructure matters, its environmental and regulatory requirements, procedures and possible solutions to problems and complaints concerning rail infrastructure.

In 1989, a backlog of 335 infrastructure-related applications was assigned to the Agency, following passage of new legislation governing rail safety. A total of 317 new applications were also received during the year. A further 297 applications were received in 1990 and 214 in 1991. There are no statutory deadlines associated with the issuance of infrastructure orders under the *Railway Act*.

Accessible Transportation

Most complaints from persons with disabilities involved problems with air transportation.

In order to better reflect one of the dimensions of the Agency's mandate, which is to ensure that transportation is accessible to all Canadians, the name Accessible Transportation was chosen to replace Transportation Services for Disabled Persons.

In 1991, the Agency received 36 new complaints concerning undue obstacles to the mobility of persons with a disability. In addition, the Agency considered 12 complaints that were carried over from 1990. At year end, 19 cases were in progress.

Twenty-nine of the 48 complaints were resolved during the year. An average of 97 days was taken per case. As in preceding years, the majority of the complaints received dealt with transportation by air. Only one complaint was received concerning rail transportation. Of the complaints which were resolved, 40 per cent dealt with air carriers, 20 per cent with ground services, 20 per cent with wheelchairs and 16 per cent with airport facilities.

In addition to an inquiry into the policies of all carriers regarding obstacles to the mobility of persons with disabilities, the Agency initiated three additional inquiries in 1991. More information regarding these inquiries will be provided in the following chapter on the Agency's 1991 activities in the area of accessible transportation services for persons with disabilities.

The Agency received 41 complaints concerning undue obstacles to the mobility of persons with a disability in 1988. Of these complaints, 32 were resolved. In 1989, 62 new complaints were received and 38 complaints were dealt with. Twenty of the 33 complaints received by the Agency in 1990 were resolved. Over this period, most of the complaints from persons with disabilities involved obstacles encountered with air services. There are no statutory requirements associated with the handling of these complaints.

Mergers and Acquisitions

Of the ten proposed acquisitions of transportation undertakings processed by the Agency in 1991, three were opposed.

There were five proposed acquisitions of air transportation undertakings filed with the Agency during 1991. In all cases, notice was given in the *Canada Gazette* within two weeks of receipt of the completed application. Four of the cases were not opposed and, therefore, not reviewed by the Agency. An objection was filed regarding the acquisition of certain of the assets of Soundair Corporation, carrying on business as Air Toronto, by 174590 Canada Inc. and to the proposed acquisition of all the issued and outstanding shares in 174590 Canada Inc. by Frontier Air Ltd., carrying on business as Canadian Frontier. An Agency review determined that the proposed acquisitions were not against the public interest.

In trucking, three proposed acquisitions of firms operating extra-provincial services were submitted to the Agency's attention. None of the three, following the notification in the *Canada Gazette*, were opposed.

In a case carried over from 1990, the Agency issued a decision regarding the proposed acquisition by Oceanex Ltd. Partnership of the assets and operations of Atlantic Container Express Inc. (ACE) and the proposed acquisition by Oceanex Holdings Ltd. Partnership of an interest in Oceanex Ltd. Partnership. Upon reviewing the Seafarers' International Union of Canada's objection to the acquisitions, the Agency ruled that these acquisitions were not against the public interest.

Two other notices of proposed marine related acquisitions were published in the *Canada Gazette* in 1991. The first was the proposed acquisition of an interest in Great Lakes Bulk Carriers by Misener Holdings Ltd., the CSL Group Inc. and James Richardson & Sons Ltd.; the Agency advised that it was not subject to review under Part VII of the *NTA, 1987*. The second, received at year end, involved the acquisition of an increased interest in Arctic Transportation Ltd. (ATL) by Fednav Ltd., which was carried over into 1992.

Since its creation in 1988, the Agency has dealt with 57 notices concerning the proposed acquisitions of transportation undertakings under federal jurisdiction: 16 were related to the air mode, 37 came from the motor carrier industry, and four involved marine interests. In the 57 cases dealt with since 1988, the Agency has had to issue only three decisions to deal with objections received concerning proposed acquisitions: twice in 1991 and once in 1989. Two of the three cases were air related while the other involved marine interests. In 1991, the Agency had to deal with significantly fewer proposed acquisitions in the trucking industry than in the previous three years.

Rail Rationalization

Branch Line Abandonment Applications

The rail branch line abandonment provisions in the *NTA, 1987* were designed to streamline the provisions in the *Railway Act* by incorporating specific criteria, decision rules, and time limits on all aspects of the process.

In its fourth year of operation the caseload before the Agency was split between new applications, submitted under the *NTA, 1987*, and reconsiderations of previous Agency decisions.

In total there were 39 cases before the Agency in 1991. The Agency issued 25 orders and/or decisions on 25 cases. The remaining 14 cases carried over into 1992 deal with reconsideration applications due for completion in 1992 or 1993 and new applications filed late in 1991 which are due for completion in 1992.

It is expected that the cases carried over into 1992 will be decided within their statutory time limits.

Rail Line Conveyance Applications

The rail line conveyance provisions of the *NTA, 1987* were designed to allow the major carriers an opportunity to rationalize their rail networks by conveying marginal lines in their systems to smaller railway companies with lower cost structures in order to maintain rail services in these areas.

In 1991, the Agency approved two conveyance applications carried over from 1990 and one application received during the year. A second application was received in 1991 and approved in early 1992.

Station Removal Applications

Another area of the Agency's responsibilities is the station closure and removal program. The Agency's jurisdiction to deal with station removal applications filed by railway companies resides in the provisions of the *Railway Act*. The sixty-one applications carried over from 1990 were completed in 1991. The Agency received 35 new applications in 1991, of which 25 were processed. The remaining ten applications will be processed in 1992.

The *Heritage Railway Stations Protection Act* (*HRSPA*) was proclaimed and came into force on August 15, 1990. The Agency and the Historic Sites and Monuments Board of Canada, which administers the *HRSPA*, exchange information on an ongoing basis to protect the interests of the public within the context of each others mandate.

Applications for Review

Nearly all applications for review in 1991 were on rail-related matters.

Forty-five rail-related applications for review, including those carried over from 1990, were considered in 1991. Thirty-seven cases were completed during the year. Of these, 28 applications were granted, one was denied, five were dismissed and three errata were issued. The eight other cases were carried forward to 1992. No statutory limits are imposed on the Agency for dealing with applications for review of its orders and decisions.

Forty-two of the rail-related review cases dealt with rail infrastructure. Eleven of these requests were to amend the plan numbers authorized on original orders. Of these, the Agency granted seven, closed one, as no response was received from the applicant, and three remained under consideration at year end. Ten requests were received to change the name of the responsible road authority on the original orders; the Agency granted nine and dismissed one. Of the three requests to rescind orders for crossings which are no longer in use or required, one was granted and two remained under consideration at the end of the year. In addition, there were 18 requests to amend orders for other reasons. Of these requests, the Agency granted nine, denied one, dismissed three, issued three errata and carried two over to 1992. The remaining three cases for rail-related reviews dealt with rail line abandonments. Two of them were granted and one was carried over to the following year.

The number of rail-related applications for review has increased significantly from five in 1988 to 45 in 1991. The number of applications granted has also grown steadily over this four year period. One application was granted in 1988, four in 1989, 17 in 1990 and 28 in 1991. In 1988, only one application was denied, while six and eight applications were denied in the years 1989 and 1990 respectively. Again in 1991, only one application was denied. The number of cases carried over to the following year has increased over this period, along with the growth in the number of applications, from three in 1988 to eight in 1991.

In 1988 and 1989, the majority of rail-related review cases dealt with rail abandonment and rail tariff issues. Following passage of the *Railway Safety Act* effective January 1, 1989, the rail safety functions were transferred from the Agency to Transport Canada. The remaining responsibilities under the *Railway Act*, including a backlog of 335 infrastructure-related applications, were assigned to the Agency. As a result, in 1990 and 1991, over 90 per cent of the rail review cases dealt with infrastructure matters. In both 1990 and 1991, the remaining rail-related review cases dealt with rail line abandonment matters.

Two applications for review dealing with air matters were filed with the Agency in 1991; one was carried over from 1990. Of these applications, one was granted, one was denied, and for the last one, the file was closed as no response was received from the applicant.

This 1991 air review caseload is to be compared to five applications in both 1988 and 1989, and two in 1990.

One marine-related application for review was filed in 1991 and carried forward to 1992. For this mode, this was the first review application since the coming into force of the new legislation in 1988.

Agency Cases in the Federal Court of Appeal

The majority of cases appealed to the Federal Court upheld the original Agency decision.

During 1988, there were 43 cases before the Federal Court of Appeal. Of these cases, 18 were carried over from the previous year and 25 new cases were started. Of the 20 completed cases, leave to appeal was denied in two cases. These cases did not make it to the Federal Court of Appeal, since leave to appeal the Agency decision was denied. Eleven cases were discontinued, as appeals of Agency decisions were withdrawn. Cases which are discontinued, or when leave to appeal is denied, maintain the Agency's original decision. At the judgement stage, three cases were granted and four were denied. An appeal granted is a judgement against the Agency's decision and an appeal denied is a judgement which maintains the Agency's decision. Therefore, in 1988, 17 of the 20 cases completed maintained the Agency's decision.

Forty-six cases were before the Court in 1989. Of these, 23 cases were carried over from the previous year. A total of 17 cases were completed; for six cases leave to appeal was denied, seven cases were discontinued, one judgement granted the appeal and three judgements denied the appeals. Out of 17 cases, 16 maintained the Agency's decision. A total of 29 cases were carried forward to 1990.

Eighteen new cases were started in 1990, bringing the total number of cases to 47. Of these, 14 were completed and 33 were carried forward to 1991. Thirteen of the completed cases maintained the Agency's decision, with five judgements denying the appeal, four cases discontinued and four cases with leave to appeal denied. Only one judgement granted the appeal.

The total number of cases in 1991 was 53: 33 carried over from 1990 and 20 new cases. Sixteen cases were completed during the year, with 12 cases discontinued, two judgements granted the appeals, and two cases were denied leave to appeal.

Over the period 1988 to 1991, there have been 67 cases disposed of in total. Of these completed cases, 60 of them, or 90 per cent of the total, upheld the Agency's decision.

ACCESSIBLE TRANSPORT SERVICES

Highlights of 1991

Agency Decisions

In 1991, Agency decisions in the area of accessible transportation dealt with the provision of: safety information in alternative media on aircraft; limousine services at a Canadian airport; an on-board wheelchair by one air carrier; and boarding assistance by another carrier.

Regulatory Initiatives

The Agency was granted additional resources to develop and put in place regulations to improve the accessibility to transportation services. The Agency undertook regulatory initiatives in the areas of terms and conditions of carriage in modes of transportation under federal jurisdiction, minimum training standards for transportation personnel, multimodal equipment accessibility, terminal accessibility, and communication of information to persons with disabilities.

Inquiries

Canadian air carrier policies with respect to the carriage of persons with disabilities, the level of accessibility of federally regulated ferry services, and the availability of accessible ground transportation equipment and services at Canadian airports were the objects of Agency inquiries in 1991. At the end of the year, the Agency announced an inquiry into the level and adequacy of accessible services currently offered on extra-provincial motor coaches. This inquiry is chaired by the Honourable Erik Nielsen.

Agency Decisions on Accessibility

The Agency decided that the lack of safety information in alternative media on aircraft constituted an undue obstacle to the mobility of persons who are blind or visually impaired. As a result, the two major Canadian air carriers were ordered to make this information available in braille and in large print. In another decision, the Agency ordered a limousine service operating at a Canadian airport to accept passengers with disabilities. The Agency also decided that an air carrier's failure to provide an on-board wheelchair or to otherwise assist a passenger to and from a washroom constitutes an undue obstacle. The carrier was instructed to supply wheelchairs on all passenger aircraft equipped with washroom facilities and to provide proper assistance to the washroom. The Agency also determined that a carrier's refusal to assist a passenger boarding a flight was an undue obstacle.

Regulations

Following the Prime Minister's announcement on September 6, 1991 of a National Strategy for the Integration of Persons with Disabilities, the Agency was granted additional resources to help develop and put in place regulations to address the accessibility to transportation services.

Terms and conditions of carriage in large aircraft

In 1990, the Agency determined that it is an undue obstacle to the mobility of a person with a disability to require payment of an additional fare for an assistant or for extra seats required to accommodate a disability - an issue commonly referred to as "one person/one fare". Regulations were drafted which would prohibit Canadian air carriers from imposing such additional charges for domestic travel in aircraft with 30 seats or more. These regulations also included the basic services that air carriers must provide to passengers with disabilities.

These regulations were submitted for government approval in March 1991. In December 1991, the Agency was asked by the Minister of Transport to consult further on the "one person/one fare" policy. The March 1991 regulations were then separated into their two components and the Agency initiated more in-depth consultations with the Air Transport Association of Canada (ATAC) on the "one person/one fare" issue. Following receipt and consideration of ATAC's comments in the spring of 1992, a proposed set of regulations will be submitted for public comment.

The part of the March 1991 regulations that establish services to be provided by air carriers to passengers with disabilities was published in the *Canada Gazette* on March 21, 1992 for public comment.

Minimum training standards for transportation personnel

The Agency approved draft regulations that would establish minimum training standards required for proper assistance of persons with disabilities by personnel of transportation firms under federal jurisdiction (i.e. carrier personnel and personnel employed in transportation premises and facilities). They received government approval and were published in the *Canada Gazette* on March 21, 1992 for public comment.

Multimodal equipment accessibility

Following meetings and consultations with the Agency's Advisory Committee - a committee comprised of representatives of carriers, government departments and organizations of and for persons with disabilities, draft regulations on transportation equipment accessibility standards were further reviewed. At the conclusion of this technical review, the proposed regulations will be resubmitted to the Advisory Committee for final comment prior to being presented to the Agency for approval in the fall of 1992.

Terms and conditions of carriage in other federal modes of transportation (bus, rail and ferry)

Regulations have been proposed that would standardize the services to be provided to passengers with disabilities for all modes of transportation under federal jurisdiction other than air. They have been circulated to the Agency's Advisory Committee and are being redrafted. They will be resubmitted to the Advisory Committee for final comment prior to being presented to the Agency for approval in the fall of 1992.

Other regulatory initiatives

Preliminary work was initiated on proposed regulations on airport terminal accessibility and communication of information to persons with disabilities. In addition, the information gathered in the inquiry into the policies of Canadian air carriers with respect to the carriage of persons with disabilities will be used to develop regulations respecting terms and conditions of carriage in small aircraft (less than 30 seats).

Inquiries

The Road to Accessibility

On December 16, 1991, the Agency announced that, at the request of the Minister of Transport, it would conduct an inquiry into the level and adequacy of accessible services currently offered on extra-provincial motor coaches, the necessity of making services accessible in accordance with a national standard and the financial implications of doing so. Agency Chairman, the Honourable Erik Nielsen, is chairing the inquiry. Other Members of the panel will vary and will include regional Members. Public hearings will be held throughout Canada and a report will be presented to the Minister of Transport at the end of 1992.

Canadian air carriers

An inquiry into the policies of Canadian air carriers with respect to the carriage of persons with disabilities was initiated in 1990. In 1991, a questionnaire was sent to more than 200 air carriers and consultations were held with a sample of 24 national, regional and small air carriers to gather information on their policies, standards and practices regarding the transportation of persons with disabilities. A two-part report was produced.

The first part of the report dealt with the policies and practices of large aircraft operators (30 seats or more), as well as with the policy of one particular carrier to refuse carriage of passengers with certain disabilities on its small aircraft. Following the circulation of the first part of the report, this carrier indicated that it would revise its policy and accept persons with disabilities on the company's small aircraft.

The Agency has not yet made a decision on the issue of the policies of large aircraft operators.

The second part of the report dealing with the question of accessibility to small aircraft services (less than 30 seats) was not completed by year-end. This part of the report is to be circulated to interested parties in the spring of 1992. Following the receipt and consideration of comments, the finalized report and its recommendations will be presented for Agency consideration.

Other inquiries

In addition to the motor coach and air carrier inquiries, the Agency initiated two other inquiries in 1991. The Agency appointed three inquiry officers to determine the level of accessibility of federally-regulated ferry services. An interim report was released in January 1992 and circulated to interested parties for comment. Following the receipt and consideration of comments, a report with recommendations will be considered by the Agency.

The Agency also initiated an inquiry into the availability of accessible ground transportation equipment and services at Canadian airports. Consultations have begun with limousine, taxi, and shuttle bus operators to determine the level of accessibility of these service-providers at airports throughout the country. Meetings with several national rental car agencies also took place to determine their policies regarding the provision of hand-controlled vehicles at airports. This inquiry should be completed in the summer of 1992.

Public Liaison

During 1991, Agency personnel continued to carry out an active program of public liaison and education to make the Agency's accessible transportation program better known to persons with disabilities. The Chairman of the Agency, in a speech at the annual general meeting of the Canadian Paraplegic Association, explained the initiatives of the Agency in the area of accessible transportation, and a total of 19 speeches were delivered by Agency staff to carriers' associations and to groups representing persons with disabilities. Staff also participated in numerous exhibitions. Advertisements were placed in specialty magazines and 15,000 brochures were distributed explaining the Agency's powers in the area of accessible transportation and the complaint procedure in the case of an undue obstacle in the public transportation system.

Agency personnel became, and still remain, active members of the working group responsible for coordinating the federal exhibition at Independence '92, an international congress and exposition on disability hosted by Canada, in Vancouver, on the occasion of the end of the Decade of Disabled Persons.

Appendix A.1

The Agency's 1991 Survey Program

Sample Size and Returns

	Sample Size	Returns Total
Shippers' Survey	3,239	646
Commercial Travellers' Associations (CTA):		
• Canada's Professional Sales Association (CPSA) Survey	2,387	656
• The Maritime Commercial Travellers' Association Survey	361	101
• North West Commercial Travellers' Association Survey	1,000	232
Association of Canadian Travel Agents Survey	2,154	552
Northern Air Survey	608	152
Shipping - Conferences Survey	27	27
Freight Forwarders' Survey	153	67
Northern Marine Survey	175	116
Port Terminal Operators' Survey	232	91
Motor Carrier Interviews	105	105

Appendix A.2

Regional Distribution of Survey Responses

	Shippers' Survey %	CPSA Survey %	Maritime CTA Survey %	North West CTA Survey %
Newfoundland	3.1	1.3	6.6	N.A.
Prince Edward Island	1.3	1.1	7.7	N.A.
New Brunswick	5.7	3.5	24.2	N.A.
Nova Scotia	5.1	8.1	61.5	N.A.
Québec	17.1	12.4	N.A.	N.A.
Ontario	26.7	35.7	N.A.	N.A.
Manitoba	8.8	11.9	N.A.	33.0
Saskatchewan	4.9	3.1	N.A.	6.4
Alberta	12.5	9.2	N.A.	24.8
British Columbia	13.4	13.8	N.A.	35.8
Yukon/Northwest Territories	1.4	–	N.A.	N.A.

	ACTA Survey %	Northern Air Survey %	Motor Carrier Interviews %
Newfoundland	1.1	6.7	2.9
Prince Edward Island	0.7	N.A.	1.9
New Brunswick	2.2	N.A.	8.6
Nova Scotia	3.4	N.A.	7.6
Québec	6.7	4.0	18.1
Ontario	38.4	2.0	25.7
Manitoba	5.8	8.0	9.5
Saskatchewan	4.9	0.7	6.7
Alberta	16.3	12.7	11.4
British Columbia	19.4	4.7	7.6
Yukon/Northwest Territories	1.1	61.3	–

Appendix B

Sources

Source	Figures	Tables
Air Canada		3.7, 3.8
Airlines	3.5, 3.17	3.10
Bank of Canada	2.2	
CCMTA National Roadside Survey	5.18, 5.20	5.23, 5.27
Canada Labour Relations Board		9.2, 9.3
Canada Ports Corporation		7.1, 7.2
Canadian Transportation Accident Investigation and Safety Board	8.1, 8.2, 8.3	
Journal of Commerce Port Import/Export Reporting Service (PIERS)	6.2, 6.3, 6.4	
Labour Canada		9.1
National Transportation Agency of Canada		
• Agency's records	3.1, 3.2, 3.3, 3.5, 3.21, 6.1, 6.7, 6.15	3.1, Appendix C.2 to C.4, Appendix D.1 to D.5
• Canadian International Freight Forwarders Survey	6.10, 6.11	
• Canadian Professional Sales Association/Maritime and North West Commercial Travellers' Associations Survey	3.16	
• Liner Trade Data Base	6.2, 6.3, 6.4	

Source	Figures	Tables
• Motor Carrier Interview Program	5.9, 5.14, 5.15, 5.19, 5.21, 5.24	5.3, 5.7, 5.8, 5.9, 5.14, 5.15, 5.16, 5.24, 5.25, 5.26, Appendix E.2, E.3, E.4
• Port Terminal Operators' Survey	6.12, 6.13	
• Shippers' Survey	4.16, 4.19, 4.20, 4.21, 4.22, 5.4, 5.5, 5.8, 5.10, 5.11, 5.12, 5.13, 5.16, 5.17, 5.22, 5.25, 6.8, 6.9	4.4, 4.5, 5.5, 5.6, 5.10, 5.11, 5.12, 5.13, 5.17, 5.18, 5.19, 5.20, 5.21, 5.22, 5.28, 6.1, Appendix E.5, E.6
• Survey of Shipping Conferences	6.14	
• Users of Northern Marine Resupply Services Survey	6.18, 6.20	6.2, 6.3
Office of the Superintendent of Bankruptcy	2.3, 5.3	5.3, 5.4
Official Airline Guides	3.10, 3.11, 3.12, 3.13, 3.14, 3.18, 3.19, 3.22	3.2, 3.6
Provincial and Territorial Licensing (trucking) Authorities	5.1	5.1, 5.2, 5.3, 5.4 Appendix E.1
PWA Corporation		3.7, 3.9
Railway Association of Canada	4.1, 4.2	
Railways		
• Annual reports filed with Agency	4.17, 4.23, 4.24, 4.25, 4.26	
• Confidential Contract Summaries	4.10, 4.11, 4.12, 4.13, 4.14, 4.15	
• Submissions to Agency	4.18	
• Traffic Information	4.3, 4.4, 4.5, 4.6, 4.7, 4.8	4.1, 4.2, 4.3
R.L. Polk Statistics	5.23	

Source	Figures	Tables
Statistics Canada	2.1, 3.6, 3.7, 3.8, 3.9, 3.15, 3.20, 4.9, 5.6, 5.26, 5.27, 5.28	3.3, 3.4, 3.5, 3.10, 9.1, Appendix F.1 to F.5
Transborder Trucking Survey prepared for the Minister of Transport's Task Force on Trucking Issues	5.7	5.27
Transport Canada	3.4, 6.5, 6.6	3.2, 3.7, Appendix C.2 to C.4
U.S. Interstate Commerce Commission	5.2, 5.28	
Water Transport Carriers' annual report and various other sources	6.16, 6.17, 6.19	
Woodlands Marine Inc.	6.21	

Appendix C.1

Sample Routes

a: Top 25 routes (Service and Tariff sections)
b: 18 Inter-Regional routes (Service section)
c: 13 Atlantic regional routes (Service section)
d: 16 Ontario/Québec regional routes (Service section)
e: 22 western regional routes (Service section)
f: 60 northern routes (Service section)
g: 27 affiliate carrier routes (Tariff section)
h: 35 mainline, regional and other routes (Tariff section)
i: 36 northern routes (Tariff section)
j: 40 sample routes (Concentration and Competition section)

Montréal-Toronto	a,j
Ottawa-Toronto	a,j
Toronto-Vancouver	a,j
Calgary-Vancouver	a,j
Calgary-Toronto	a,j
Toronto-Winnipeg	a,j
Calgary-Edmonton	a,j
Edmonton-Vancouver	a,j
Halifax-Toronto	a,j
Edmonton-Toronto	a,j
Thunder Bay-Toronto	a,j
Montréal-Vancouver	a,j
Vancouver-Winnipeg	a
Ottawa-Vancouver	a
Vancouver-Victoria	a
Halifax-Montréal	a,j
Halifax-Ottawa	a,j
Calgary-Winnipeg	a,j
Prince George-Vancouver	a,j
St. John's-Toronto	a,j
Halifax-St. John's	a,j
Québec-Toronto	a
Ottawa-Winnipeg	a,j
Calgary-Montréal	a
Calgary-Ottawa	a,j
Brandon-Toronto	b
Deer Lake-Montréal	b,h
Dryden-Winnipeg	b,g
Edmonton-Montréal	b,h
Fredericton-Montréal	b,h
Îles/Madeleine-Halifax	b,g
Montréal-Charlottetown	b,h
Moncton-Toronto	b,g
Montréal-Moncton	b,g
Ottawa-Edmonton	b,h
Ottawa-Fredericton	b,h
Ottawa-Moncton	b
Ottawa-Regina	b,h
Ottawa-Saint John	b,h
Québec-Halifax	b,h
Regina-Toronto	b,h
Saskatoon-Toronto	b,j
Vancouver-St. John's	b
Charlottetown-Halifax	c,h,j
Deer Lake-Halifax	c,h
Deer Lake-St. John's	c,h
Gander-St. John's	c,g,j
Halifax-Moncton	c,g
Halifax-Saint John	c,h
Halifax-Sydney	c,g
Moncton-Saint John	c,g
Saint John-St. John's	c,h
Stephenville-Gander	c,h
Stephenville-Halifax	c,g
Stephenville-St. John's	c,g
Yarmouth-Halifax	c,g
Dryden-Thunder Bay	d,g
Hamilton-Montréal	d,g
Hamilton-Ottawa	d
Îles/Madeleine-Québec	d,h
London-Toronto	d,g
Montréal-Rouyn/Noranda	d,h
Montréal-Sag/Bagotville	d,h
Montréal-Sept-Îles	d,h
Montréal-Val d'Or	d,h,j
Québec-Sept-Îles	d,g,j
Sault Ste. Marie-Ottawa	d,h
Sault Ste. Marie-Toronto	d,g,j
Sudbury-Montréal	d,h
Sudbury-Toronto	d,h,j
Timmins-Toronto	d,h
Toronto-Windsor	d,h

Brandon-Winnipeg	e
Calgary-Castlegar	e,h
Calgary-Grande Prairie	e,g
Campbell River-Vancouver	e,h
Cranbrook-Calgary	e,g
Cranbrook-Vancouver	e,g
Edmonton-Grande Prairie	e
Edmonton-Regina	e,h
Edmonton-Saskatoon	e
Grande Prairie-Vancouver	e,i
Kamloops-Edmonton	e
Kamloops-Vancouver	e,g
Kamloops-Calgary	e,g
Kelowna-Vancouver	e,g,j
Regina-Vancouver	e,h,j
Saskatoon-Prince Albert	e
Saskatoon-Regina	e,h
Saskatoon-Winnipeg	e,h
Vancouver-Penticton	e,g
Vancouver-Port Hardy	e,g
Vancouver-Williams Lake	e,g
Winnipeg-Edmonton	e,h
Blanc Sablon-St. Anthony	f,i
Calgary-Inuvik	f,i
Cambridge Bay-Iqaluit	f,i
Cambridge Bay-Yellowknife	f,i,j
Dawson Creek-Edmonton	f,i
Dawson Creek-Prince George	f,h
Deer Lake-Wabush	f,h
Edmonton-Inuvik	f,i
Edmonton-Yellowknife	f,i,j
Ft. Chipewyan-Edmonton	f
Ft. McMurray-Calgary	f,i
Ft. McMurray-Edmonton	f,i,j
Ft. St. John-Watson Lake	f,g
Ft. St. John-Ft. Nelson	f,g
Gillam-Churchill	f,i
Goose Bay-Churchill Falls	f,i
Goose Bay-Halifax	f,i
Goose Bay-St. John's	f,i
Kenora-Red Lake	f,i
Pickle Lake-Thunder Bay	f,i
Québec-Wabush	f,i
Rankin Inlet-Winnipeg	f,i
Saskatoon-La Ronge	f
Saskatoon-Stony Rapids	f
The Pas-Winnipeg	f,i
Thompson-Flin Flon	f,i
Wabush-St. John's	f,i
Vancouver-Dawson Creek	f,h
Vancouver-Whitehorse	f,i
Winnipeg-Gillam	f,i
Winnipeg-Churchill	f,i
Cape Dorset-Salluit	f
Inuvik-Aklavik	f
Inuvik-Ft. Good Hope	f
Inuvik-Ft. McPherson	f
Inuvik-Norman Wells	f,i
Inuvik-Paulatuk	f
Inuvik-Sachs Harbour	f
Inuvik-Tuktoyaktuk	f
Inuvik-Yellowknife	f,i,j
Iqaluit-Coral Harbour	f,i
Iqaluit-Kuujjuaq	f
Iqaluit-Montréal	f,i,j
Iqaluit-Rankin Inlet	f,i
Iqaluit-Resolute	f,i
Iqaluit-Yellowknife	f,i
Kangiqsujuaq-Quaqtaq	f
Kuujjuaq-Kangiqsualujjuaq	f
Kuujjuaq-Kangirsuk	f
Kuujjuaq-Tasiujaq	f
Kuujjuaraapik-Inukjuaq	f
Kuujjuaraapik-La Grande	f
Kuujjuaraapik-Sanikiluaq	f
Kuujjuaraapik-Umiujaq	f
Norman Wells-Yellowknife	f,i
Povungnituk-Akulivik	f
Povungnituk-Inukjuaq	f
Povungnituk-Sanikiluaq	f
Povungnituk-Tulugak	f
Saaluit-Ivujivik	f
Iqaluit-Nanisivik	i
Iqaluit-Ottawa	i
La Grande-Montréal	i
Whitehorse-Yellowknife	i
Halifax-Fredericton	j
Kelowna-Kamloops	j
Montréal-Ottawa	j
Montréal-Québec	j
Québec-Saguenay	j
Thunder Bay-Sudbury	j

Appendix C.2

Regional Affiliates Fleet Composition

Air Canada Affiliates	Dec. 1990	Dec. 1991	On Order
Air Nova	9 Dash 8s 5 BAe 146s	9 Dash 8s 5 BAe 146s	10 Canadair Regional Jets
Air Alliance	11 Dash 8s	15 Dash 8s	
Air Ontario	18 Dash 8s 4 Dash 8-300s	15 Dash 8s 6 Dash 8-300s	
AirBC	10 Dash 8s 4 Dash 7s 5 BAe 146s 8 Twin Otters 6 Jetsreams	10 Dash 8s 6 Dash 8-300s 5 BAe 146s 8 Twin Otters 6 Jetstreams	2 Dash 8s
Pacific Coastal Airlines	19 assorted non-jet aircraft	18 assorted non-jet aircraft	
NWT Air	2 B-737s 1 Hercules	2 B-737s 1 Hercules	
Air Toronto[1]	9 Jetstreams	–	
TOTAL	**111**	**106**	**12 On order**

[1] Air Toronto was acquired by Ontario Express on November 1, 1991.

Appendix C.3

Regional Affiliates Fleet Composition

Canadian Affiliates	**Dec. 1990**		**Dec. 1991**	
Air Atlantic	11	Dash 8s	13	Dash 8s
	3	BAe 146s	3	BAe 146s
Inter-Canadien	–		12	ATR-42s
Ontario Express	13	Jetstreams	14	Jetstreams
	6	ATR-42s	2	ATR-42s
	3	EMB-120s	5	EMB-120s
Canadian Frontier	5	Beech 1900s	5	Beech 1900s
Calm Air	4	HS 748s	4	HS 748s
	3	Twin Otters	2	Twin Otters
	3	Other	2	Other
Canadian North	8	B-737s	8	B-737s
Time Air	2	F-28s	7	F-28s
	3	SD-360s	3	SD-360s
	3	Dash 7s	6	Dash 8s
	7	Dash 8s	14	Dash 8-300s
	9	Dash 8-300s	6	Other
	6	Other		
TOTAL	**89**		**106**	

Appendix C.4

Independent Canadian Jet Carriers

	Dec. 1990	Dec. 1991
Worldways[1]	2 L1011s 3 B-727s	–
Nationair	8 DC-8s 3 B-747s 2 B-757s	5 B-757s 3 DC-8s 4 B-747s
Air Transat	4 L1011s	4 L1011s 3 B-727s
Canada 3000	5 B-757s	4 B-757s
First Air (Also operates turboprops)	4 B-727s	4 B-727s
Intair[2] (Also operates turboprops)	7 F-100s	–
Air Charter Systems (All cargo)	3 DC-8s	3 DC-8s
TOTAL	**41**	**30**

[1] Worldways ceased charter operations October 11, 1990.

[2] Intair ceased operations November 3, 1991.

Appendix D.1

Notices of Intent to Apply for Abandonment, 1991

(Subsection 160(1) of the *NTA, 1987*)

Province/Railway Subdivision	Between Points	Track Miles	Date of Receipt
Manitoba			
CN Oak Point	Steep Rock to Gypsumville 131.00-156.70	25.70	October 17, 1991
	CN Total Miles	**25.70**	
Saskatchewan			
CP Dunelm	Player to Simmie 0.0-25.2	25.2	December 18, 1991
CP Shamrock	McMahon to Hak 95.2-103.4	8.2	December 18, 1991
	CP Total Miles	**33.4**	
Alberta			
CP Langdon/ Strathmore	Langdon to Irricana 0.0-25.7 Langdon to Shepard 33.6-45.1	37.2	March 18, 1991
CN Sheerness	Batter Jct. to Sheerness 0.00-13.00	13.00	August 28, 1991
	CP Total Miles	**37.2**	
	CN Total Miles	**13.00**	
Northwest Territories			
CN Pine Point	Pine Point Jct. to Pine Point Mines 0.00-54.30	54.30	October 7, 1991
	CN Total Miles	**54.30**	

Appendix D.2

Summary of Abandonment Applications, 1991

Subsection 160(4) of the *NTA, 1987*

	No. of Applications			
Province	**CN**	**CP**	**CSXT**	**Total**
Québec	N.A.	1	N.A.	1
Ontario	1	N.A.	1	2
Manitoba	1	1	N.A.	2
Saskatchewan	N.A.	2	N.A.	2
Alberta	1	1	N.A.	2
TOTAL	**3**	**5**	**1**	**9**

	Mileage			
Province	**CN**	**CP**	**CSXT**	**Total**
Québec	N.A.	2.09	N.A.	2.09
Ontario	24.84	N.A.	1.90	26.74
Manitoba	25.70	24.60	N.A.	50.30
Saskatchewan	N.A.	33.10	N.A.	33.10
Alberta	13.00	37.20	N.A.	50.20
TOTAL	**63.54**	**96.99**	**1.90**	**162.43**

Appendix D.3

Active Rail Line Abandonment Applications and Lines Under Reconsideration during 1991

Subsections 160(4) and 171(1) of the *NTA, 1987*

Province/Railway/ Subdivision	Between Points	Track Miles	Status
Nova Scotia			
CN Chester[1,3]	Barry's Stillwater Marsh-Liverpool 42.25-109.07	66.82	Ordered abandoned June 15, 1991.
	CN Total Miles	**66.82**	
New Brunswick			
CP Edmundston[1,5]	CP Junction-Edmundston 55.6-56.1	0.5	Abandonment stayed.
CP Edmundston/[1,5] Shogomoc	Aroostook-Grand Falls 0.0-20.4	20.4	Abandonment stayed.
	Aroostook 104.6-105.8	1.2	
CP Shogomoc[1,5]	McAdam-Woodstock 0.0-51.5	51.5	Abandonment stayed.
CP Shogomoc[1,4,5]	Woodstock-Newburg 51.5-54.2	2.7	Abandonment stayed.
CP Shogomoc/[1,3,4,5] Gibson	Newburg-Upper Kent 54.2-88.5	34.3	Abandonment stayed.
	Newburg-Southampton Junction 0.0-22.0	22.0	
CP Shogomoc[1,4,5]	Upper Kent-Aroostook 88.5-104.6	16.1	Abandonment stayed.
CP Tobique[1,4,5]	Perth Junction-Plaster Rock 0.0-27.5	27.5	Abandonment stayed.
	CP Total Miles	**176.2**	
Québec			
CP Beebe[1]	Beebe Junction-Border 32.9-34.99	2.09	Ordered abandoned January 10, 1992.

Province/Railway/ Subdivision	Between Points	Track Miles	Status
CN Chandler[2,4,5]	Ste-Adélaïde-Gaspé 48.10-104.23	56.13	Ordered abandoned February 5, 1992. Decision rescinded by Governor-in-Council.
CN Chapais[1,4]	Franquet-Chapais 72.06-169.40	97.34	Ordered continued.
CN Granby[2]	Clough-Marieville 15.57-38.70	23.13	Ordered continued.
CN Montmagny[1,6]	Harlaka-St-Romuald 111.35-119.12	7.77	Ordered abandoned October 31, 1992.
CP St-Gabriel[1]	Joliette-St-Félix-de-Valois 7.1-17.8	10.7	Ordered abandoned December 25, 1991. Abandonment deferred until August 31, 1992.
CN St-Raymond[2]	Hedley-Jackson's 2.62-36.50	33.88	Application dismissed.
CN Sorel[2]	Tracy-Sorel 45.50-47.16 Nicolet-St-Grégoire 77.00-83.82 83.99-84.20	8.69	Notice of Reconsideration issued April 3, 1991. Mileage amendment issued September 3, 1991.
CP Waltham[1]	Wamo-Wyman 1.0-34.0 Incl. Hilton Mines Spur 0.0-4.7	37.7	Ordered abandoned March 29, 1991.
	CN Total Miles	**226.94**	
	CP Total Miles	**50.49**	
Ontario			
CN Burford[2]	Brantford-North Burford 3.35-11.00	7.65	Ordered continued.
CSXT No.1[1]	Rodney-West Lorne 100.9-102.8	1.9	Application received October 25, 1991.
CN Kincardine[2]	Listowel-Wingham 1.41-30.34	28.93	Ordered abandoned June 15, 1991.

Province/Railway/ Subdivision	Between Points	Track Miles	Status
CN Marmora[1,4]	Picton-Trenton 0.05-30.15 Incl. Bethlehem Spur 0.00-4.23 Lake Ontario Cement Lead 0.00-1.34	35.67	Application dismissed. Appealed to Federal Court.
CN Meaford[2]	Barrie-Collingwood 1.09-31.40 Incl. Penetang Spur 0.00-2.00 Incl. Pretty River Spur 0.00-0.92	33.23	Ordered continued.
CN Midland[1,4]	Uhthoff-Midland 52.00-75.21 Incl. Midland Industrial Spur 75.21-76.13 Incl. Coldwater Spur 0.00-0.71	24.84	Application received March 15, 1991.
CN Newton[2,7]	Stratford-Palmerston 1.17-36.62	35.45	Ordered continued.
	Incl. 1.41 miles of the Kincardine Subd. 0.00-1.41	1.41	
CN Owen Sound[2,7]	Palmerston-Owen Sound 0.00-71.43	71.43	Ordered continued.
CN Renfrew[2,8]	Nepean-Arnprior 0.00-27.20	27.20	Ordered abandoned July 31, 1992 or mutually agreed upon date.
CN Smiths Falls[2]	Richmond-Smiths Falls 13.00-34.05	21.05	Ordered abandoned February 5, 1992.
CN Taschereau[2,5]	La Sarre-Cochrane 99.00-181.42	82.42	Ordered abandoned October 17, 1991. Decision rescinded by Governor-in-Council.

Province/Railway/ Subdivision	Between Points	Track Miles	Status
CN Uxbridge[2,9]	Lindsay-Stouffville 0.00-38.88 Incl. Campbellford Spur 85.18-86.28 Incl. Haliburton Spur 0.00-0.53 Incl. Lindsay River Branch 0.00-3.20 Incl. Lindsay Industrial Spur 0.00-2.50	46.21	Ordered abandoned April 1, 1991.
	Mile 38.88-Stouffville 38.88-40.31	1.43	Ordered continued.
	CN Total Miles	**416.92**	
	CSXT Total Miles	**1.90**	
Manitoba			
CN Oak Point[1]	Steep Rock-Gypsumville 131.00-156.7	25.70	Application received December 23, 1991.
CP Winnipeg Beach[1]	Gimli-Riverton 58.0-82.6	24.6	Ordered abandoned July 3, 1991
	CN Total Miles	**25.70**	
	CP Total Miles	**24.6**	
Saskatchewan			
CN Central Butte[2]	Moose Jaw Junction-Mawer 39.37-85.00	45.63	Ordered continued. To be reconsidered after year 2000. (See Endnote C.)
CP Kerrobert[1]	Outlook-Conquest 0.4-8.6	8.2	Ordered abandoned May 18, 1991.
CP Shamrock[1]	Tyson-McMahon 70.3-95.2	24.9	Ordered abandoned January 16, 1992.
CP White Fox[1]	Meath Park-Sharpe 63.6-73.4	9.8	Ordered abandoned July 5, 1991.
	CN Total Miles	**45.63**	
	CP Total Miles	**42.9**	

Province/Railway/ Subdivision	Between Points	Track Miles	Status
Alberta			
CN Demay[1]	Roundhill-Ryley 12.00-24.90	12.90	Ordered abandoned September 25, 1991.
CN Lac La Biche[1]	Banko Jct.-Bon Accord 0.00-9.50	9.50	Ordered abandoned May 2, 1991.
CP Langdon/[1] Strathmore	Langdon-Irricana 0.00-25.7 Langdon-Shepard 33.6-45.1	37.2	Ordered abandoned November 6, 1991.
	CN Total Miles	**22.40**	
	CP Total Miles	**37.2**	
British Columbia			
CP Boundary	Grand Forks Segment 92.6-93.85 Incl. Carson Spur	3.25	Ordered continued.

Footnotes

[1] First consideration of application.
[2] Reconsideration of application.
[3] Subject of Public Hearing.
[4] Appealed to Federal Court of Appeal.
[5] Petition to Governor-in-Council.
[6] Letter-decision dated October 4, 1991 varied Order 1991-R-170 to exclude miles 119.12-120.30; letter decision dated March 30, 1992 varied order to extend abandonment date to October 31, 1992.
[7] Included in one application.
[8] Order No. 1991-R-588 issued December 24, 1991 varies Order No.1988-R-1216 by changing effective date of abandonment to either July 31, 1992, or thirty (30) days after such earlier date as shall be advised jointly by BASF Fibres Inc. and CN, that there is agreement among BASF, the Regional-Municipality of Ottawa-Carleton and CN on the purchase of the branch line after the abandonment of the operation.
[9] Order varied original abandonment date of December 31, 1990.

Endnotes

A This table provides details of the applications and rail line segments dealt with in 1991 or for which a decision can be expected to be rendered during 1992. Excluded are cases where no application was received, as well as any conveyance applications and cancelled applications.

B Under section 171 of the *NTA, 1987*, a line ordered continued must be reconsidered by the Agency within three years.

C The Agency has ruled that it has no power to reconsider this application since the portion of the line between Mawer and Riverhurst, which is under a Prohibition Order, could potentially be isolated.

Appendix D.4

Summary of Abandonment Dates Fixed Under Section 168 of the *NTA, 1987*

Orders and Decisions, 1991 Branch Line Abandonment

Subdivision	Between/ Miles	Track Miles	Order No./ Date	Decision
Nova Scotia				
CN Chester	Barry's Stillwater Marsh-Liverpool 42.25-109.07	66.82	251-R-1991 91/05/16	Ordered abandoned June 15, 1991.
New Brunswick				
CP Edmundston	CP Junction-Edmundston 55.6-56.1	0.5	1991-R-9 91/01/09	Ordered abandoned February 8, 1991. Abandonment stayed.
CP Edmundston/ Shogomoc	Aroostook-Grand Falls 0.0-20.4 104.6-105.8	21.6	1991-R-10 91/01/09	Ordered abandoned February 8, 1991. Abandonment stayed.
CP Shogomoc	McAdam-Woodstock 0.0-51.5	51.5	1991-R-11 91/01/09	Ordered abandoned February 8, 1991. Abandonment stayed.
CP Shogomoc/ Gibson	Newburg-Upper Kent 54.2-88.5 Newburg-Southampton Jct. 0.0-22.0	56.3	1991-R-288 91/06/03	Mile 75.96 to Mile 88.5 ordered abandoned July 3, 1991. Mile 54.2 to Mile 75.96 & Mile 0.00 to Mile 22.0 ordered abandoned December 31, 1991. Abandonment stayed.
Québec				
CP Beebe	Beebe Junction-Border 32.9-34.99	2.09	1991-R-570 91/12/11	Ordered abandoned January 10, 1992.
CN Chandler	Ste-Adélaïde-Gaspé 48.10-104.23	56.13	1991-R-60 91/02/0	Ordered abandoned February 5, 1992. Order rescinded by Governer-in-Council.
CN Granby	Clough-Marieville 15.57-38.70	23.13	1991-R-375 91/07/18	Ordered continued.

Subdivision	Between/ Miles	Track Miles	Order No./ Date	Decision
CN Montmagny[1]	Harlaka-St-Romuald 111.35-119.12	7.77	1991-R-170 91/04/03	Ordered abandoned April 3, 1992. Abandonment date extended to October 31, 1992.
CP St-Gabriel	Joliette-St-Félix-de-Valois 7.1-17.8	10.7	1991-R-33 91/01/25	Ordered abandoned December 25, 1991. Abandonment deferred until August 31, 1992.
CN St-Raymond	Hedley-Jackson's 2.62-36.50	33.88	1991-R-62 91/02/07	Application dismissed.
CP Waltham	Wamo-Wyman 1.0-34.0 Incl. Hilton Mines Spur 0.0-4.7	37.7	1991-R-105 91/02/27	Ordered abandoned March 29, 1991.
Ontario				
CN Kincardine	Listowel-Wingham 1.41-30.34	28.93	1991-R-239 91/05/16	Ordered abandoned June 15, 1991.
CN Newton[2]	Stratford-Palmerston 1.17-36.62 Incl. 1.41 miles of the Kincardine Subdivision	36.86	1991-R-58 91/02/04	Ordered continued.
CN Owen Sound[2]	Palmerston-Owen Sound 0.00-71.43	71.43	1991-R-58 91/02/04	Ordered continued.
CN Renfrew[3]	Nepean-Arnprior 0.00-27.20	27.20	1991-R-588 91/12/24	Ordered abandoned July 31, 1992 or mutually agreed upon date.
CN Smiths Falls	Richmond-Smiths Falls 13.00-34.05	21.05	1991-R-59 91/02/05	Ordered abandoned February 5, 1992.
CN Taschereau	LaSarre-Cochrane 99.00-181.42	82.42	1991-R-492 91/09/19	Ordered abandoned October 17, 1991. Order rescinded by Governor-in-Council.

Subdivision	Between/ Miles	Track Miles	Order No./ Date	Decision
CN Uxbridge[4]	Lindsay-Stouffville 0.00-38.88 Incl. Campbellford Spur 85.18-86.28 Incl. Haliburton Spur 0.00-0.53 Incl. Lindsay River Branch 0.00-3.20 Incl. Lindsay Industrial Spur 0.00-2.50	46.21	1991-R-35 91/01/25	Ordered abandoned April 1, 1991.
	M38.88-Stouffville 38.88-40.3	1.43	1991-R-35 91/01/25	Ordered continued.
Manitoba				
CP Winnipeg Beach	Gimli-Riverton 58.0-82.6	24.6	1991-R-290 91/06/03	Ordered abandoned July 3, 1991.
Saskatchewan				
CP Kerrobert	Outlook-Conquest 0.4-8.6	8.2	1991-R-197 91/04/18	Ordered abandoned May 18, 1991.
CP Shamrock	Tyson-McMahon 70.3-95.2	24.9	1991-R-586 91/12/17	Ordered abandoned January 16, 1992.
CP White Fox	Meath Park-Sharpe 63.6-73.4	9.8	1991-R-298 91/06/05	Ordered abandoned July 5, 1991.
Alberta				
CN Demay	Roundhill-Ryley 12.00-24.90	12.90	1991-R-448 91/08/26	Ordered abandoned September 25, 1991.
CN Lac La Biche	Banko Jct.-Bon Accord 0.00-9.50	9.50	1991-R-167 91/04/02	Ordered abandoned May 2, 1991.
CP Langdon/ Strathmore	Langdon-Irricana 0.00-25.8 Langdon-Shepard 33.6-45.1	37.2	1991-R-503 91/10/07	Ordered abandoned November 6, 1991.

Footnotes:

[1] Letter-decision dated October 4, 1991 varied Order 1991-R-170 to exclude miles 119.12-120.30.

[2] One application.

[3] Order No. 1991-R-588 issued December 24, 1991 varies Order No.1988-R-1216 by changing effective date of abandonment to either July 31, 1992, or thirty (30) days after such earlier date as shall be advised jointly by BASF Fibres Inc. and CN, that there is agreement among BASF, the Regional-Municipality of Ottawa-Carleton and CN on the purchase of the branch line after the abandonment of the operation.

[4] Order varied original abandonment date of December 31, 1990.

Appendix D.5

Summary of Plans for Abandonment Notices and Applications, 1992

To determine the abandonment plans of the various railways under its jurisdiction, the Agency solicited submissions from the following companies:

- Algoma Central Railway
- Burlington Northern Railway Company
- Canadian National Railway Company
- Canadian Pacific Limited
- Consolidated Rail Corporation
- CSX Transportation Incorporated
- Devco Railway
- The Essex Terminal Railway Company
- Napierville Junction Railway Company
- Nipissing Central Railway
- Norfolk and Western Railway Company
- Québec North Shore and Labrador Railway Company
- Wabush Lake Railway Company and Arnaud Railway Company
- The White Pass and Yukon Corporation Limited

Of the companies canvassed, CN, CP Rail and CSXT submitted abandonment plans. In addition, the Essex Terminal Railway Company stated they may file an application for the abandonment of a small portion of track in Windsor, Ontario. None of the other companies indicated that they had any branch line abandonment plans for 1992. CN, CP Rail and CSXT have been assessing their railway networks to identify potential lines for abandonment.

Whereas the following summary indicates the order of magnitude of notices and applications and approximate mileages to be submitted, the actual lines proposed to be abandoned are still subject to change contingent upon such factors as business decisions, government decisions and negotiations with customers.

Summary of Planned 1992 Branch Line Abandonment Activities

	CN	CP	CSXT	TOTAL
Notices of Intent	20	24	1	45
Abandonment Applications*	21	24	1	46
Total Mileage	**422**	**600**	**6**	**1,028**

* Includes cases where applications will be submitted during 1992 following Notices of Intent filed in 1991.

Appendix E.1

MVTA, 1987
Summary of Procedural Cases, Board Decisions, Court Rulings, 1988-1991

Procedural Cases

BOARD DECISIONS

1988

Manitoba	L. & M. Schill Ltd. George Smith Canadian Freightways Ltd.
Ontario	Atomic Transport Inc. A.D.R. Trucking Inc.
Québec	Transport Dallaire Ltée United Parcel Service Canada Ltd. Federal Express Canada Ltd.

1989

Ontario	North American Van Lines Inc.

COURT RULINGS

1988

Ontario	Atomic Transport Inc.

1989

Ontario	J.B. Hunt Transport Inc.

1990

Manitoba	United Parcel Service Canada Ltd. (Appeal)

Public Interest Test

BOARD DECISIONS

1988

British Columbia	Glencoe Transport Ltd. W.N. Trotter Trucking Ltd. Fraser Wharves Ltd. and Annacis Auto Terminals Ltd.
Alberta	Mercury Express Ltd.

1988

Manitoba	Canyon Distributors Ltd.
	Robert Lindsay O/A R.L. Trucking
New Brunswick	Eassons Transport Ltd
	Gelco Express Ltd.
	041341 N.B. Ltd.
Nova Scotia	F.M. Taylor Trucking Ltd.

1989

New Brunswick	Joseph Richardson
	Sunbury Transport Ltd.
Ontario	Chemical Leaman Tank Lines Inc.
	Cassens Transport Co.
	J.B. Hunt Transport Inc.
Manitoba	George Smith
	Penner Foods Ltd.
	Robert Lindsay & George Smith
Saskatchewan	United Parcel Service Canada Ltd.
British Columbia	United Parcel Service Canada Ltd.
	Ketch Transport Ltd.
	Northwest Transport (Alberta) Ltd.
	Indiana Jones Inc.
	John Lee Skelton
	Glencoe Transport Inc.
	Armstrong The Mover Edmonton Ltd.
	Garry Allan Smith (2 Applications)
Yukon	Kohlman Industries Ltd.

1990

New Brunswick	Seaboard Liquid Carriers Ltd.
	Tippett-Richardson Ltd.
Nova Scotia	United Parcel Service Canada Ltd.
Manitoba	United Parcel Service Canada Ltd.
Saskatchewan	Arnold Bros. Transport Ltd. & Atomic Transport Inc.
British Columbia	Owen Smith
	Pacific Basin Realty Corporation
Yukon	T & T Trucking (Alberta) Ltd.
	Mid Arctic Transportation Co. Ltd.
	A & K Mining & Excavating Ltd.

1991

Manitoba	United Parcel Service Canada Ltd.
British Columbia	West Coast Freightlines Ltd.
	Asa Van Gilder
	Ralmax Sand & Gravel Ltd.
	Bayridge Transport Ltd.
	Pitt Meadows Garage Ltd.

COURT RULINGS

	1988
New Brunswick	Brookville Transport Ltd. (Appeal) Brookville Transport Ltd. (Appeal)
Ontario	Ontario Highway Transport Board Ontario Highway Transport Board (Appeal)
Alberta	Reimer Express Lines Ltd. (Appeal)
	1989
Manitoba	Transx Ltd. (Appeal) Robert Lindsay & George Smith (Appeal)
	1990
Manitoba	United Parcel Service Canada Ltd. (Appeal)
	1991
New Brunswick	Sunbury Transport Ltd. (Appeal)
Manitoba	United Parcel Service Canada Ltd. (Appeal)

Appendix E.2

1991 Agency Motor Carrier Interview Program

Profile of 105 Participating Carriers

Province of Domicile	No. of carrier
Newfoundland	3
Prince Edward Island	2
Nova Scotia	9
New Brunswick	8
Québec	19
Ontario	27
Manitoba	10
Saskatchewan	7
Alberta	12
British Columbia	8

Market Presence	
Intra-Provincial only	2
Intra and Extra-Provincial	29
Extra-Provincial only	0
Intra/Extra/Transborder	62
Intra/Transborder	4
Extra/Transborder	7
Transborder only	1

Type of Activity	
LTL - General Freight and LTL/TL	50
TL - General Freight (incl. reefers)	39
Liquid Bulk	9
Dry Bulk	3
Specialized Carriage	4

Size Groupings (Number of Highway Tractors)	
Under 50	36
50 - 99	22
100 - 149	11
150 - 199	7
200 - 499	18
500 and Over	10

Appendix E.3

Change in Carriers' Average Unit Revenue - Truckload

	Domestic		Transborder	
	1990	1991	1990	1991
		% of Carriers		
Increase				
13% +	0	0	1	0
9 - 12%	1	1	1	0
5 - 8%	13	6	10	4
1 - 4%	21	13	10	10
No Change	34	28	34	29
Decrease				
1 - 4%	6	17	7	17
5 - 8%	12	21	18	21
9 - 12%	8	13	11	19
13% +	5	1	8	0

Appendix E.4

Change in Carriers' Average Unit Revenue - LTL

	Domestic		Transborder	
	1990	1991	1990	1991
	% of Carriers			
Increase				
13% +	5	0	0	0
9 - 12%	5	0	3	0
5 - 8%	17	7	3	4
1 - 4%	26	11	23	9
No Change	30	23	43	17
Decrease				
1 - 4%	4	16	3	9
5 - 8%	7	32	10	44
9 - 12%	2	9	7	17
13% +	4	2	7	0

Appendix E.5

Shipper Evaluation of Service Factors 1989-1991 – Truckload

	Good/Very Good			Fair			Poor/Very Poor		
	1989	1990	1991	1989	1990	1991	1989	1990	1991
					% of Shippers				
Equipment Supply	83	84	82	16	15	17	1	2	2
Equipment Condition	83	80	82	15	18	17	2	1	2
Liability of Carrier	82	77	79	16	20	21	3	2	1
Service Frequency	84	84	79	15	13	19	1	3	2
Service Reliability	–	–	78	–	–	19	–	–	2
Transit Time	84	86	82	15	12	15	1	2	2
Shipment Tracing	66	70	66	28	26	27	5	4	7
Product Care	76	77	75	21	21	24	3	2	1
Claims Handling	57	60	57	33	33	34	10	6	9
Carrier Cooperation	87	88	85	13	11	14	1	1	1
Quality of Service	86	85	81	13	14	19	0	1	0
Efficiency of Service	84	85	80	15	14	18	1	1	2

Appendix E.6

Shipper Evaluation of Service Factors 1989-1991 – Less-than-Truckload

	Good/Very Good			Fair			Poor/Very Poor		
	1989	**1990**	**1991**	**1989**	**1990**	**1991**	**1989**	**1990**	**1991**
				% of Shippers					
Equipment Supply	83	84	84	16	15	16	1	2	–
Equipment Condition	80	77	75	19	21	23	2	2	2
Liability of Carrier	76	75	76	19	21	21	6	3	2
Service Frequency	80	82	79	20	16	19	1	3	1
Service Reliability	–	–	73	–	–	24	–	–	4
Transit Time	66	70	69	29	26	24	5	4	7
Shipment Tracing	54	66	65	38	27	27	8	6	8
Product Care	61	66	67	32	30	28	8	4	5
Claims Handling	47	51	54	38	34	35	15	14	12
Carrier Cooperation	77	81	81	21	17	18	1	1	2
Quality of Service	75	74	75	24	24	22	1	1	2
Efficiency of Service	73	70	73	25	27	24	3	2	3

Appendix F.1

Employment

Year	Transport Sector					All Other
	Air	Rail	Trucking	Water	All (000)	Sectors (000)
1991	60,520	63,310	93,810	26,550	441.7	9,459
1990	66,072	67,180	107,385	26,066	472.9	10,154
1989	64,136	72,695	117,392	26,972	471.2	10,343
1988	59,530	76,743	115,234	24,285	460.8	10,107
1987	55,242	79,983	112,400	25,033	455.2	9,946
1986	55,302	88,880	112,659	28,730	477.3	9,706
1985	53,899	92,094	114,507	27,651	478.7	9,512
1984	53,334	96,659	111,409	28,049	473.7	9,142
1983	49,540	95,948	100,029	29,702	464.0	9,030
1982	50,366	102,190	108,979	32,458	488.8	9,458
1981	52,132	111,710	121,864	35,884	515.8	10,062
1980	51,741	113,520	124,848	35,848	520.3	9,850
1979	48,286	119,228	110,204	33,836	504.1	9,745
1978	44,336	116,620	107,915	34,553	497.3	9,473

Appendix F.2

Average Weekly Earnings (Current dollars)

Year	Transport Sector: Air	Rail	Trucking	Water	All	All Other Sectors
1991	743	831	524	818	630	541
1990	701	781	533	750	595	513
1989	657	733	529	722	576	487
1988	636	699	509	678	556	464
1987	606	664	474	654	527	443
1986	589	621	449	607	509	426
1985	576	585	449	601	495	415
1984	569	572	431	573	479	401
1983	561	533	415	559	462	385
1982	563	465	373	509	423	361
1981	508	412	345	455	379	328
1980	439	375	317	407	338	293
1979	386	330	297	378	304	266
1978	351	304	276	342	280	245

Appendix F.3

Strikes and Lockouts

Number of Cases

Year	Air	Rail	Trucking	Water
1991	2	–	5	5
1990	1	3	6	6
1989	3	4	12	4
1988	4	1	5	5
1987	4	1	3	5
1986	6	1	4	6
1985	10	–	6	1
1984	3	–	5	–
1983	4	2	12	3
1982	5	–	10	3
1981	8	–	10	5
1980	9	5	10	12
1979	4	3	11	16
1978	7	12	12	11

Appendix F.4

Strikes and Lockouts

Workers Involved

Year	Air	Rail	Trucking	Water
1991	320	–	3,399	353
1990	24	1,880	572	415
1989	187	444	2,811	2,527
1988	1,016	3,000	214	5,734
1987	8,930	48,660	92	1,441
1986	3,860	102	73	5,026
1985	12,633	–	79	78
1984	125	–	366	–
1983	478	1,565	465	146
1982	799	–	4,982	3,657
1981	1,761	–	1,774	206
1980	560	2,385	904	3,485
1979	1,681	2,823	4,115	7,412
1978	8,550	7,416	766	1,275

Appendix F.5

Regional Distribution of Transportation Employment in 1991

Region	Number of Workers	Percentage
Newfoundland	6,900	1.6
Prince Edward Island	2,100	0.5
Nova Scotia	12,200	2.7
New Brunswick	10,200	2.3
Quebec	103,600	23.4
Ontario	152,600	34.5
Manitoba	26,400	6.0
Saskatchewan	12,250	2.8
Alberta	50,400	11.4
British Columbia	63,080	14.3
Yukon	770	0.2
Northwest Territories	1,160	0.3
TOTAL	**441,660**	**100.0**